

McDonald's Corporation

**\$60,000,000
9⁵/₈% Notes
Due 1982**

**PAINE
WEBBER
JACKSON
& CURTIS
INCORPORATED**

October 17, 1974



Transfer Agents

American National Bank and Trust Company of Chicago
La Salle at Washington
Chicago, Illinois 60690

The Royal Trust Company
Royal Trust Tower
Toronto—Dominion Centre
Toronto, Ontario, Canada

Registrars

The Northern Trust Company
50 South La Salle Street
Chicago, Illinois 60690

Montreal Trust Company
15 King Street West
Toronto, Ontario, Canada

LISTING APPLICATION TO
NEW YORK STOCK EXCHANGE, INC.

B-4635-D
October 17, 1974

McDONALD'S CORPORATION

**\$60,000,000 Principal Amount of
9 $\frac{5}{8}$ % Notes Due 1982**

Cusip Number 580135 AC 5

UNDERWRITTEN PUBLIC OFFERING

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

DESCRIPTION OF TRANSACTION

McDonald's Corporation, a Delaware corporation (the "Company"), proposes to issue and sell \$60,000,000 aggregate principal amount of 9 $\frac{5}{8}$ % Notes due 1982 (the "Notes"). The Notes will be issued under an Indenture (the "Indenture") dated as of October 15, 1974 between the Company and American National Bank and Trust Company of Chicago, Trustee. All of the Notes will be issued and sold to the several underwriters for resale by such underwriters to the public. Reference is made to the Prospectus dated October 17, 1974, relating to the Notes, which is attached hereto and made a part hereof, for additional information required in connection with this application.

Information pertaining to the Company's use of the net proceeds from the sale of the Notes appears in the Prospectus. Principal and interest on the Notes will be payable, and the Notes will be transferable and exchangeable without service charge other than stamp taxes or governmental charges, if any, at the corporate trust office of the Trustee at 33 North LaSalle Street, Chicago, Illinois 60690 and at the New York City facility of the Trustee, c/o The Bank of New York, 90 Washington Street, New York, New York 10015. Additionally, interest will be payable, at the Company's option, by check mailed to the registered holder of a Note at the address appearing in the Note Register. The Notes will be issuable only in registered form without coupons in denominations of \$1,000 and integral multiples thereof.

RECENT DEVELOPMENTS

All recent important developments affecting the Company or its business have either received publicity or are described in the Prospectus.

AUTHORITY FOR ISSUANCE

The issuance and sale of the Notes, upon the terms and conditions and for the purposes set forth in the Prospectus, were authorized by resolutions adopted by the Board of Directors of the Company on October 10, 1974.

OPINION OF COUNSEL

The opinion of Sonnenschein Carlin Nath & Rosenthal, 69 West Washington Street, Chicago, Illinois 60602, counsel for the Company, has been filed in support of this application to the effect that: (i) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware; (ii) the Notes have been duly and validly authorized, and, when duly executed and authenticated in accordance with the terms of the Indenture and issued and sold in accordance with the terms of the Underwriting Agreement between the Company and the several underwriters, will constitute valid and binding obligations of the Company in accordance with their terms; (iii) the Notes have been duly and validly registered under the Securities Act of 1933, as amended, with the Securities and Exchange Commission on a Registration Statement on Form S-1;

(iv) the Indenture under which the Notes will be issued has been qualified with the Securities and Exchange Commission under the Trust Indenture Act of 1939, as amended, on a Statement of Eligibility and Qualification on Form T-1; and (v) application has been made on Form 8-A for registration of the Notes under the Securities Exchange Act of 1934, as amended.

Donald G. Lubin, a member of the firm of Sonnenschein Carlin Nath & Rosenthal, is a Director of the Company.

McDONALD'S CORPORATION

By: **DONALD P. HORWITZ**
Vice President

The New York Stock Exchange, Inc., hereby authorizes the listing of \$60,000,000 aggregate principal amount of 9 $\frac{5}{8}$ % Notes due 1982 of McDonald's Corporation upon official notice of issuance, sale and evidence of satisfactory distribution pursuant to an underwritten public offering.

MERLE S. WICK, Vice President
Division of Stock List

JAMES J. NEEDHAM, Chairman of the Board
New York Stock Exchange, Inc.

EXHIBIT

The Prospectus attached hereto as an Exhibit constitutes an essential part of the application. The statements of fact contained therein are made on the authority of the applicant corporation in the same manner as those in the body of the application.

McDonald's Corporation

PROSPECTUS

\$60,000,000
9 $\frac{5}{8}$ % Notes due 1982
Interest payable
April 15 and October 15

The Notes will mature on October 15, 1982 and may not be redeemed prior to April 15, 1981. On and after that date, the Notes may be redeemed at the option of the Company in whole or in part, at their

principal amount plus accrued interest. See "Description of Notes."

The Company has applied for listing of the Notes on the New York Stock Exchange.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions(2)	Proceeds to the Company(1)
Per Unit	99.50%	.70%	98.80%
Total	\$59,700,000	\$420,000	\$59,280,000

- (1) Plus accrued interest from October 15, 1974 to date of delivery. The proceeds are before deduction of expenses payable by the Company estimated at \$265,000.
- (2) The Company has agreed to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

The Notes are offered severally by the Underwriters as stated herein, subject to receipt and acceptance by them and subject to the right to reject any order in whole or in part.

It is expected that delivery of the Notes offered by the Underwriters hereby will be made at the office of Paine, Webber, Jackson & Curtis, Incorporated in Chicago, Illinois on

or about October 24, 1974. The Notes will be issued only in fully registered form.

PAINE, WEBBER, JACKSON & CURTIS
INCORPORATED

The date of this Prospectus is October 17, 1974.

TABLE OF CONTENTS

	Page
Prospectus Summary	3
Purpose of the Offering	3
McDonald's Corporation	4
Capitalization	5
Consolidated Statement of Income	7
Business	11
Contributions to Revenues and Consolidated Income	11
Personnel	12
Licensees	12
Products	12
Operations	12
Advertising and Promotion	13
Trademarks, Service Marks and Patents	13
Competition	13
International Operations	13
Real Estate	13
Company Owned Restaurants	14
Government Regulation and Pending Legal Proceedings	14
Environmental and Energy Matters	15
Management	16
Officers and Directors	16
Remuneration	17
Employee Stock Options	17
Profit Sharing Plan	19
Other Transactions Involving Management	19
Description of Notes	20
General	20
Redemption Provisions	20
Events of Default	20
Certain Covenants and Ratios	20
Certain Definitions	21
Modification of Indenture	22
The Trustee	22
Underwriting	22
Legal Opinions	24
Experts	24
Additional Information	24
Financial Statements	25

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, salesman or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus does not constitute an offer or solicitation by anyone in any state in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or such solicitation. The delivery of this Prospectus at any time does not imply that information herein is correct as of any time subsequent to its date.

PROSPECTUS SUMMARY

The following is a summary of certain information contained elsewhere in this Prospectus and is qualified in its entirety by reference to the financial statements and other information appearing in the body of this Prospectus.

McDonald's Corporation

McDonald's Corporation and its subsidiaries develop, operate, license and service a system of more than 3,000 self service restaurants. See "McDonald's Corporation; Business."

The Notes

The Offering\$60 million of 9 $\frac{5}{8}$ % Notes due 1982. See "Description of Notes."

Redemption and

Call ProtectionRedeemable at the Company's option at 100% of the principal amount commencing on April 15, 1981. See "Description of Notes."

SecurityUnsecured; however, under certain circumstances, may be secured by mortgages on a portion of the Company's real property and will be guaranteed by the Company's wholly owned subsidiaries until so secured. See "Description of Notes."

Use of Proceeds

To be applied toward payment of long and short term bank indebtedness and toward acquisition and development of real estate for new McDonald's restaurants.

Summary of Financial Information

(000's Omitted)

	Year Ended December 31			Six Months Ended June 30	
	1971	1972	1973	1973	1974
Income Statement:					
Total revenues	\$320,576	\$422,493	\$592,211	\$277,710	\$350,609
Net income	\$ 27,228	\$ 37,069	\$ 51,992	\$ 25,370	\$ 33,150
Capitalization (at end of period):					
Long-term debt, less current maturities	\$107,914	\$ 98,489	\$230,072	\$127,234	\$266,311
Stockholders' equity	\$144,634	\$207,780	\$261,960	\$235,603	\$296,427
Ratio of earnings to fixed charges	4.09	5.33	4.99	5.52	4.57

Purpose of the Offering

Of the net proceeds received by the Company from the sale of the Notes offered by it hereunder, estimated at approximately \$59.0 million after payment of expenses, approximately \$57.5 million will be used for payment of certain of the Company's long term and short term indebtedness to banks. \$36.5 million of the debt to be retired was outstanding at June 30, 1974. The remaining debt to be retired consists of \$15 million of long term notes outstanding under a Bank Credit Agreement, dated July 15, 1974 (see Note 5 of Notes to Capitalization) and \$6 million of short term notes which were made since June 30, 1974. The short term indebtedness was incurred largely for the purpose of financing the construction of new McDonald's restaurants. The balance of the proceeds (approximately \$1.5 million) will initially be invested in bank certificates of deposit or other short term securities and will be used for the acquisition and development of real estate for new McDonald's restaurant locations.

McDonald's Corporation

McDonald's Corporation and its subsidiaries develop, operate, license and service a system of more than 3,000 self service restaurants.

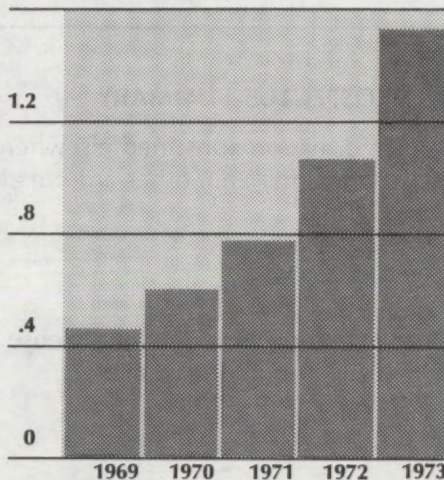
McDonald's restaurants are located in all fifty of the United States, the District of Columbia, and throughout Canada. At May 31, 1974, there were 97 McDonald's restaurants in operation in Australia, the Caribbean, Central America, Japan, Guam and Western Europe. The McDonald's System retails a limited menu of quickly prepared, moderately priced foods through both licensed and Company owned restaurants. Uniform standards for quality of product, and efficiency, speed and courtesy of service are encouraged at all restaurants.

The Company and its licensees advertise the McDonald's name and products extensively both locally and nationally, principally on television. The Company believes that public awareness arising from advertising of its "Ronald McDonald" character and its slogans, such as "You deserve a break today, so get up and get away to McDonald's", has significantly contributed to the Company's sales.

McDonald's Corporation is a Delaware corporation which succeeded to an Illinois corporation formed in 1955. Its principal office is located at McDonald's Plaza, 2111 Enco Drive, Oak Brook, Illinois 60521, and its telephone number is (312) 887-3200. McDonald's Corporation, together with its subsidiaries, is referred to as the "Company." "McDonald's System" is sometimes used to describe Company and independently owned restaurants collectively.

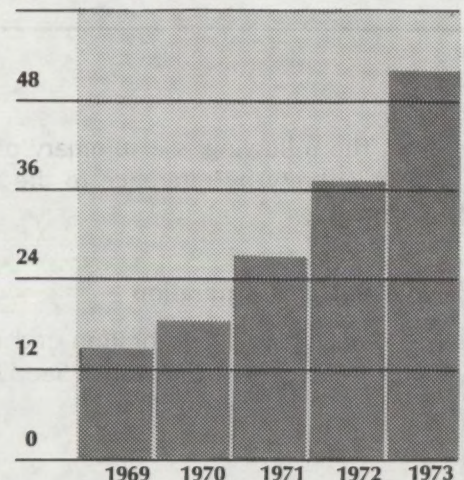
Sales by company owned and licensed restaurants

1.6 billions of dollars



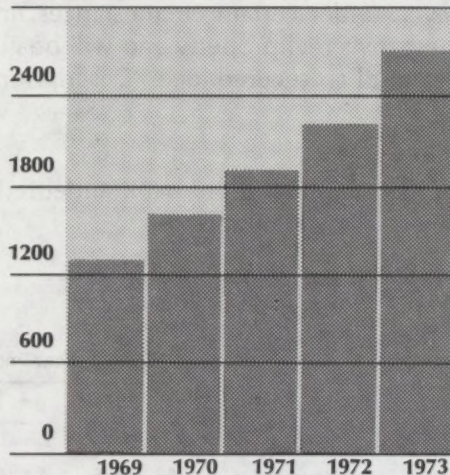
Net income

60 millions of dollars



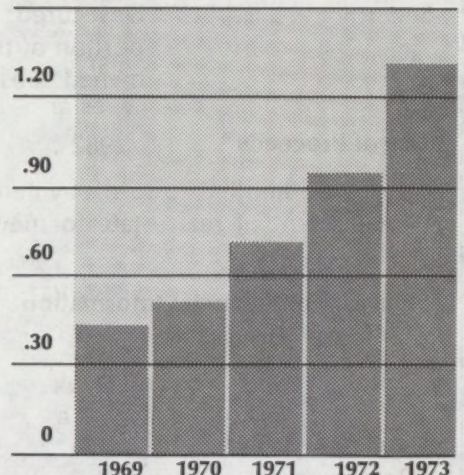
Number of restaurants

3000 restaurants



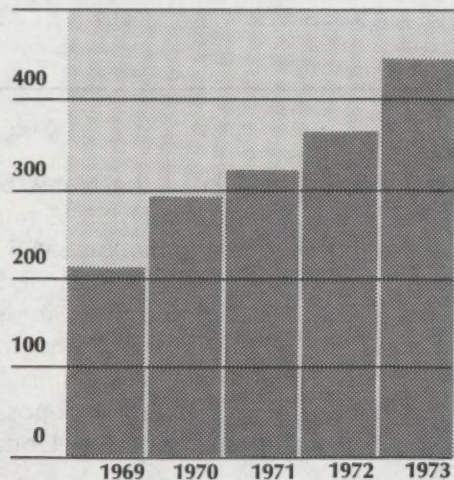
Net income per share

1.50 dollars



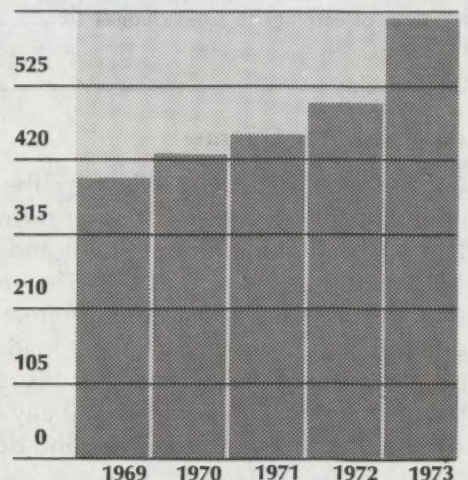
Number of restaurants opened during year

500 restaurants



Average volume per restaurant in operation 13 months or more

630 thousands of dollars



Capitalization

The following table sets forth the capitalization of McDonald's Corporation and its subsidiaries

on a consolidated basis as of June 30, 1974 and as adjusted to give effect to the offering made hereby.

Title of Class	Amount Outstanding	As Adjusted
Short-term notes payable to banks:		
McDonald's Corporation (1)	\$ 11,500,000	\$ —
Subsidiaries (2)	8,319,000	3,319,000
	<u>\$ 19,819,000</u>	<u>\$ 3,319,000</u>
Long-term debt, including current maturities:		
McDonald's Corporation—		
Mortgage notes payable (3)	\$ 39,837,000	\$ 39,837,000
Notes payable—		
Revolving credit (4)	50,000,000	30,000,000
Banks (5)	31,744,000	31,744,000
Promissory notes (6)	23,200,000	23,200,000
Equipment purchases and miscellaneous (7)	576,000	576,000
9½ % Notes due 1982	—	60,000,000
	<u>145,357,000</u>	<u>185,357,000</u>
Subsidiaries—		
Mortgage notes payable (3)	110,724,000	110,724,000
Notes payable—		
Banks (9)	10,255,000	10,255,000
Equipment purchases and miscellaneous (7)	15,470,000	15,470,000
	<u>136,449,000</u>	<u>136,449,000</u>
Total long-term debt	<u>\$281,806,000</u>	<u>\$321,806,000</u>
Lease security deposits (8):		
McDonald's Corporation (less \$2,705,000 due to consolidated subsidiaries) .	\$ 8,591,000	\$ 8,591,000
Subsidiaries	20,636,000	20,636,000
	<u>\$ 29,227,000</u>	<u>\$ 29,227,000</u>
Capital Stock (10):		
Preferred Stock, without par value, 300,000 shares authorized: 6% Cumulative Convertible, Series A-D, 3,503 shares authorized,		
Series D outstanding	427 shs.	427 shs.
Common Stock, without par value, 100,000,000 shares authorized	39,658,725 shs.	39,658,725 shs.

See accompanying notes and "Purpose of the Offering".

Notes to Capitalization:

(1) The notes bear interest at the lender's prime rate (11.80% at June 30, 1974), except for \$700,000 on which the interest rate is 11.50%.

The Company uses funds generated through operations for current construction expenditures and for the acquisition of real estate. The amount of consolidated net current assets fluctuates during the year, depending on receipt and subsequent disbursement of

proceeds from consummation of mortgages under commitment agreements and borrowings under long-term bank credit lines. At June 30, 1974, the Company had consolidated net current assets of \$14,634,000 compared with \$22,485,000 at December 31, 1973. The consolidated current assets at August 31, 1974, however, approximated consolidated current liabilities.

(2) \$5 million of the notes bear interest at the lender's prime rate (11.80% at June 30, 1974). Approximately \$2,542,000 of the notes bear interest (11.25% at June

30, 1974) at .25% above the lender's prime rate. The remaining notes outstanding have interest rates which range between 7.75% and 10.25%.

(3) With a minor exception, interest rates range from 5.50% to

10.50%, as shown by the following table:

	McDonald's Corporation	Real Estate Subsidiaries
5.50% to 6.99%	\$ 3,409,000	\$ 6,914,000
7.00% to 7.99%	5,125,000	12,773,000
8.00% to 8.25%	13,031,000	50,399,000
8.26% to 8.50%	11,496,000	28,838,000
8.51% to 8.99%	2,821,000	7,897,000
9.00% to 10.50%	3,955,000	3,838,000
Over 10.50%	—	65,000

Substantially all of the notes of real estate subsidiaries are guaranteed by McDonald's Corporation. Amounts for mortgage

notes include certain capitalized lease rental obligations of McDonald's Corporation—\$883,000 and subsidiaries—\$4,900,000.

(4) Current loans are due August 31, 1977, and provide for interest (12.30% at June 30, 1974) at .50% above the Agent bank's prime rate. The Company maintains compensating balances of 15 to 20%

of the loans, so that at June 30, 1974, the effective rate of interest was 15.21%. For additional information, see Note 5 of Notes to Financial Statements.

(5) \$30 million of the notes are repayable in four equal annual installments commencing December 17, 1977 and bear interest (12.30% at June 30, 1974), at the rate of .50% above the Agent bank's prime rate to December 17, 1976 and .75% above such prime rate thereafter.

The Company maintains compensating balances of 10 to 15% of the total line of credit and, in the case of one bank, an additional 10% of loans outstanding, so that at June 30, 1974, the effective rate of interest was 14.76%.

On July 15, 1974, the Company obtained an additional \$30 million line of credit. The loans outstanding under this line of credit (\$15 million at September 30, 1974 and any subsequent borrowings) will be repaid from the net proceeds from the sale of the Notes offered hereby, and the line of credit will be terminated. The payment of the notes and the termination of the commitment will be without premium or penalty.

The remaining notes become due at various dates between December,

1975 and January, 1977. Interest rates (which range between 11% and 14.125% at June 30, 1974) are periodically revised due to market conditions.

(6) The 8.375% promissory notes (\$11,850,000) are due November 1, 1979. The remaining \$11,350,000 of promissory notes have an interest rate of 8.50% and are repayable 1977 to 1980 in specified annual installments.

(7) Interest rates range up to 10.50%, except for approximately \$100,000 of Canadian subsidiaries' notes (primarily made prior to acquisition) on which the rates range from 15% to 16.75%. See Note 5 of Notes to Financial Statements.

(8) Generally non-interest bearing. See Note 7 of Notes to Financial Statements.

(9) Approximately \$4,657,000 of the outstanding bank loans bear interest (12.50% at June 30, 1974) at 1.50% above the lender's prime rate and are repayable in 60 monthly installments. The remaining \$5,598,000 outstanding are eight-year bank loans. Interest rates range from 9.50% to 9.75%. Principal payments commence in January, 1975.

(10) Subsequent to June 30, 1974, the Company redeemed all outstanding preferred stock. At June 30, 1974, a maximum of 1,253,907 shares of common stock were reserved: 294,630 shares for conversion of preferred stock referred to in Note 8 of Notes to Financial Statements; 941,137 shares for issuance under the stock option plans adopted in 1968 and 1973; and 18,140 shares for issuance in connection with the acquisition of restaurants in Hawaii.

Reference is made to Note 6 of Notes to Financial Statements for information with respect to the Company's obligations under leases.

Consolidated statement of income

The following consolidated statement of income of McDonald's Corporation and subsidiaries for the five years ended December 31, 1973 has been examined by Arthur Young

& Company, certified public accountants, whose report with respect thereto appears elsewhere in this Prospectus. This statement has been prepared on the pooling of

interests basis outlined in Note (b) and should be read in conjunction with the other financial statements and related notes appearing elsewhere in this Prospectus.

Year Ended December 31,					
	1969	1970	1971	1972	1973
(Dollars in thousands, except per share data)					
Revenues:					
Gross sales by Company-owned restaurants	\$142,472	\$189,047	\$262,311	\$344,091	\$473,990
Rental income	21,515	29,181	39,641	53,148	80,064
Service fees	6,765	9,039	12,486	17,013	26,344
Initial location and license fees	1,814	1,534	1,677	2,019	3,071
Gains on sales of Company-owned restaurant businesses	2,088	1,794	2,087	3,408	5,553
Interest and other income—net	1,884	1,551	2,374	2,814	3,189
Total revenues	176,538	232,146	320,576	422,493	592,211
Costs and expenses:					
Company-owned restaurants—					
Food and paper	54,275	71,330	99,084	134,590	197,239
Payroll	26,946	40,056	55,924	72,439	98,201
Rent	2,854	4,353	6,935	9,171	10,980
Depreciation and amortization	3,346	5,049	7,094	8,789	11,748
Other operating expense	29,606	36,305	46,736	61,858	80,109
Interest expense	1,138	2,092	2,858	3,341	4,450
	118,165	159,185	218,631	290,188	402,727
Expenses applicable to rental income—					
Rent	6,039	7,199	9,535	13,608	17,314
Depreciation and amortization	1,272	1,977	2,588	2,805	4,437
Interest expense	1,333	1,954	2,537	2,889	5,621
	8,644	11,130	14,660	19,302	27,372
General, administrative and selling expenses	17,482	22,872	31,123	41,433	60,071
Other interest charges, principally on long-term debt	3,093	3,131	3,707	247	654
Total costs and expenses	147,384	196,318	268,121	351,170	490,824
Income before income taxes	29,154	35,828	52,455	71,323	101,387
Provision for income taxes(c)	14,221	17,090	25,227	34,254	49,395
Net income	14,933	18,738	27,228	37,069	51,992
Dividend requirements on preferred stock	60	60	60	60	51
Net income applicable to common stock	\$ 14,873	\$ 18,678	\$ 27,168	\$ 37,009	\$ 51,941
Net income per share of common stock(d)	\$.44	\$.51	\$.71	\$.94	\$1.31
Ratio of earnings to fixed charges(g)	4.30	3.73	4.09	5.33	4.99

See accompanying notes.

Notes to consolidated statement of income

(a) Numerical note references relate to Notes to Financial	Statements appearing elsewhere in this Prospectus. A summary of the	Company's significant accounting policies is set forth in Note 1.
(b) During the years 1969 through 1973 the Company acquired businesses operating 213 restaurants, including related territorial rights, from licensees in transactions accounted for as poolings of interests (See Note 2). A 1973 pooling	transaction resulted in the Company acquiring its then outstanding Series A Preferred Stock (issued in a prior pooling transaction). Operations of the pooled businesses are included in the consolidated statement of income from January 1, 1969 or the	dates operations commenced, if later. A reconciliation of consolidated revenues and net income as originally reported by the Company with amounts shown in the accompanying consolidated statement of income follows:

	Year Ended December 31,			
	1969	1970	1971	1972
	(In thousands of dollars)			
Revenues:				
As originally reported	\$129,673	\$193,498	\$278,187	\$385,179
Attributable to businesses acquired in poolings of interests ...	46,865	38,648	42,389	37,314
As adjusted	<u>\$176,538</u>	<u>\$232,146</u>	<u>\$320,576</u>	<u>\$422,493</u>
Net income:				
As originally reported	\$ 12,641	\$ 17,691	\$ 25,778	\$ 36,225
Attributable to businesses acquired in poolings of interests ...	2,292	1,047	1,450	844
As adjusted	<u>\$ 14,933</u>	<u>\$ 18,738</u>	<u>\$ 27,228</u>	<u>\$ 37,069</u>

The contribution to consolidated revenues and net income of businesses pooled in each year, prior to dates of acquisition in such years, was not significant. No amounts are included in the consolidated statement of income for restaurant businesses acquired in poolings of interests during the five months ended May 31, 1974, since their

results of operations are insignificant to the consolidated amounts.

See Note 2 for information regarding restaurant businesses purchased from licensees and restaurant businesses sold to licensees during the five years ended December 31, 1973. The gains on sales of Company-owned restaurant businesses are shown separately in the consolidated

statement of income. Results of operations of businesses purchased and of businesses sold from January 1, 1969 to the respective purchase and sale dates were not material to the accompanying financial statements.

See Note 2 for information concerning the numbers of restaurants in operation at December 31, 1971, 1972 and 1973.

(c) The provision for income taxes for the five years ended December 31, 1973 consists of the following:

	1969	1970	1971	1972	1973
	(In thousands of dollars)				
Current:					
U. S. federal	\$12,423	\$13,973	\$20,607	\$27,863	\$37,889
Foreign				657	1,014
State	1,199	1,673	2,006	3,215	5,614
	<u>13,622</u>	<u>15,646</u>	<u>22,613</u>	<u>31,735</u>	<u>44,517</u>
Deferred:					
U. S. federal	599	1,444	2,614	2,519	4,528
Foreign					350
	<u>599</u>	<u>1,444</u>	<u>2,614</u>	<u>2,519</u>	<u>4,878</u>
	<u>\$14,221</u>	<u>\$17,090</u>	<u>\$25,227</u>	<u>\$34,254</u>	<u>\$49,395</u>

A reconciliation of the consolidated income tax provision shown above with amounts

computed by applying the U. S. federal income tax rates of 52.8% for 1969, 49.2% for 1970 and 48%

for 1971, 1972 and 1973 to income before income taxes for those years, is as follows:

	1969	1970	1971	1972	1973
	(In thousands of dollars)				
Tax at statutory rate	\$15,393	\$17,627	\$25,178	\$34,235	\$48,666
State income taxes, net of related federal income taxes ..	634	823	963	1,767	2,920
Investment tax credits	(147)	(60)	(386)	(1,592)	(2,246)
Effect of multiple surtax election through filing separate income tax returns	(1,000)	(1,072)	(1,400)	(1,380)	(930)
Net miscellaneous items (each less than 5% of tax at statutory rate)	(659)	(228)	872	1,224	985
Consolidated tax provision	<u>\$14,221</u>	<u>\$17,090</u>	<u>\$25,227</u>	<u>\$34,254</u>	<u>\$49,395</u>

Deferred income taxes, computed on the net change method, relate to the following differences

between income tax and financial statement reporting:

	1969	1970	1971	1972	1973
	(In thousands of dollars)				
Additional tax depreciation	\$ 761	\$ 984	\$1,224	\$1,700	\$2,400
Costs incurred during construction of restaurants which are capitalized for financial reporting purposes, but expensed for tax purposes		428	805	1,000	2,300
Other (each less than 15% of total deferred tax provision) ..	(162)	32	585	(181)	178
Total deferred tax provision	<u>\$ 599</u>	<u>\$1,444</u>	<u>\$2,614</u>	<u>\$2,519</u>	<u>\$4,878</u>

(d) Net income per share (1) is computed based on the average number of common shares and common equivalent shares outstanding during each year (34,050,923 in 1969, 36,479,733 in 1970, 38,187,116 in 1971, 39,170,686 in 1972 and 39,635,186 in 1973), after giving retroactive effect to stock splits and shares issued in connection with poolings of interests referred to in Note (b); and (2) is after recognition of dividend requirements at the annual rate of

\$60 per share on the preferred stock. Shares issued in connection with poolings of interests are, for purposes of the computations of net income per share, assumed to have been outstanding from January 1, 1969 or the dates the related acquired businesses commenced operations, if later.

Shares issuable and contingently issuable in connection with the acquisition of restaurants in Hawaii (Note 8), and stock options granted

after May 31, 1969 are considered to be common stock equivalents. However, shares contingently issuable in connection with the Hawaiian restaurants have been excluded from the calculation of reported net income per share as their inclusion would not have a dilutive effect and would not change reported net income per share.

Assuming exercise of all dilutive stock options at dates granted prior to June 1, 1969, conversion of the

4¼ % subordinated debentures at January 1, 1969 (no longer outstanding) and conversion of the 4½ % subordinated debentures at January 1, 1972 (no longer outstanding—See Note 8), no material dilution of reported net income per share for the years 1969	through 1973 would have resulted. For purposes of this computation, net income has been increased by interest on the debentures, net of income taxes, and the proceeds from stock options granted prior to June 1, 1969 have been assumed to be used to purchase treasury stock.	Assumed conversion of outstanding preferred stock, based on the current price of the common stock, and conversion of the 4½ % subordinated debentures when issued in 1971, would not have a dilutive effect.
(e) No cash dividends were declared or paid on the common stock during the period covered by	the consolidated statement of income. See Note 5 regarding	restrictions on payment of cash dividends.
(f) Certain reclassifications have been made in the consolidated	statement of income for years prior to 1973 to conform to the	presentation for 1973.
(g) For purposes of this ratio, earnings represent income before income taxes and fixed charges.	Fixed charges consist of interest on all indebtedness, amortization of	debt discount and expense and one third of all rent charges.

Estimated annual interest charges on the long and short-term bank indebtedness to be paid through the proceeds of this offering exceed the \$5,775,000 annual interest requirements of the Notes offered by this Prospectus.

The unaudited pro forma ratio of earnings to fixed charges for 1973, after giving effect to the estimated annual interest requirements of the Notes and of short-term and long-term debt issued or retired since December 31, 1972, is 3.17. This calculation does not take into account any income which might have been earned from restaurants financed through mortgages or earned on any other investment of the net proceeds of the issuance of the short-term and long-term debt.

Comparative results of operations for the six month periods ended June 30, 1973 (restated to include results of operations of businesses acquired in poolings of interests through June 30, 1974) and 1974 are shown at right. The effect of businesses acquired in 1974 poolings is immaterial. The comparative results are unaudited but, in the opinion of the Company, include

all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation. Net income for the six month period ended June 30, 1974 is not necessarily indicative of results for the entire year.

	Six Months Ended June 30,	
	1973	1974
	(Unaudited)	
	(Dollars in thousands, except per share data)	
Total sales by all restaurants (Company-owned and licensed)	\$686,965	\$899,586
Number of restaurants in operation at June 30 ...	2,443	2,887
Company revenues:		
Gross sales by Company-owned restaurants ...	\$223,812	\$276,489
Rental income	35,811	48,889
Service fees	11,779	16,203
Initial location and license fees	1,143	1,544
Gains on sales of Company-owned restaurant businesses	2,654	4,468
Interest and other income—net	2,511	3,016
Total	\$277,710	\$350,609
Provision for income taxes	\$ 24,040	\$ 32,010
Net income	\$ 25,370	\$ 33,150
Net income per share of common stock	\$.64	\$.83

Business

Contributions to Revenues and Consolidated Income

The Company's consolidated revenues include (a) sales by Company owned restaurants, (b) rental income, service fees, and initial location and license fees, and (c) other revenues, including gains on sales of Company owned restaurant businesses. Many of the Company's employees and departments service both Company owned and licensed restaurants. It is therefore not practicable to segregate corporate general, administrative and selling expenses or general interest expense between

Company owned restaurant operations and revenues from licensees and, accordingly, no allocation of these expenses has been made.

The following table sets forth the respective percentages of revenues referred to above and of contribution to consolidated income before corporate general, administrative and selling expenses, general interest expense and federal income taxes for the five years ended December 31, 1973. Revenues from Company owned restaurants consist of their total sales of

products. All income from such restaurant operations accrues to the benefit of the Company. On the other hand, revenues from independent licensees consist of payments to the Company based principally on percentages of the licensed restaurants' sales; and the income from such restaurant operations, after deducting payments to the Company and other costs and expenses, accrues to the benefit of the independent licensees. Accordingly, the following tabular data do not reflect the relative profitability of Company owned and independently licensed restaurants.

	1969	1970	1971	1972	1973
Revenues:					
Company owned restaurants	81%	81%	82%	81%	80%
Independent licensees—					
Rental income	13	13	12	13	14
Service fees, etc.	5	5	5	5	5
	<u>18</u>	<u>18</u>	<u>17</u>	<u>18</u>	<u>19</u>
Other	1	1	1	1	1
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

	1969	1970	1971	1972	1973
Contribution to Consolidated Income:					
Company owned restaurants	51%	50%	51%	49%	45%
Independent licensees—					
Rental income	26	29	29	30	33
Service fees, etc.*	19	18	17	18	19
	<u>45</u>	<u>47</u>	<u>46</u>	<u>48</u>	<u>52</u>
Other*	4	3	3	3	3
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

* There are no expenses directly attributable to "Service fees, etc." and "Other" revenue. Therefore, the contribution to income, for purposes of these percentages, includes the total amounts of "Service fees, etc." and "Other" revenues received by the Company since the only expenses relating to such revenues consist of general, administrative and selling expenses which have not been allocated.

Personnel

As of May 31, 1974, the Company had approximately 54,000 employees, of whom approximately 52,000 were employed in Company owned restaurants. The Company considers its employee relations to be good.

Achievement of the Company's basic "QSC" principle—Quality, Service and Cleanliness—depends on proper training of personnel. The Company accordingly maintains a continual training program at all levels, including a two-week in-store training course and a two-week intensive course for new licensees on McDonald's operations, policies and standards at its Hamburger University training facility in Elk Grove Village, Illinois, the facilities of which include a closed circuit television broadcasting unit. Hamburger University is conducted without charge throughout the year for original and refresher training courses and to disseminate new training and business materials. In 1973 it graduated over 1,600 persons.

Licensees

The Company is adhering to its policy to remain a licensing company in the United States; at May 31, 1974, approximately 72% of McDonald's U. S. restaurants were owned by independent licensees.

The Company generally leases restaurant sites and buildings to its licensees under 20 year leases which provide for rentals stated as a percentage of sales with a minimum fixed rent. Generally, the percentage rental ranges from 6% to 8½%; most leases since January, 1970 provide for 8½%. The rents received by the Company for those restaurants leased by it are in excess of the rents paid by the Company for the restaurant locations. See "Consolidated Statement of Income."

The Company has always had a backlog of approved applicants, many of whom are already McDonald's licensees, awaiting assignment of new restaurants. The initial investment (exclusive of interest and other financing charges and of up to approximately \$40,000 in optional expenditures by the licensee) required by a new independent licensee to commence operations of a McDonald's restaurant with indoor seating is approximately \$160,000. This investment consists of lease security deposit (refundable on expiration of the lease term), signs and equipment (acquired by the licensee from independent suppliers and usually financed), inventory and working capital and initial license and location fees. The term of the license is concurrent with that of the licensee's lease. Each independent licensee is required to select, train and employ his own personnel, but the Company advises in procurement and aids in training.

Products

McDonald's restaurants offer a substantially uniform menu limited to hamburgers and cheeseburgers, including the "Big Mac" and the "Quarter-Pounder", french fried potatoes, fish sandwiches, hot apple pie, shakes, and a limited number of soft drinks and other beverages. Over 14 billion McDonald's hamburgers and cheeseburgers have been sold. The menu is substantially the same in foreign countries. Many McDonald's restaurants are now open during breakfast hours, when they also offer menu items featuring "Egg McMuffin" and "Hotcakes and Sausage". The Company continually test markets new items.

The Company strives for maintenance of quality and uniformity throughout the

McDonald's System by prescribing detailed specifications for food purchasing, preparation and service and through field visits to both licensees and suppliers. The Company does not sell fixtures, equipment, food or supplies to its licensees, but often arranges for their volume purchase.

The Company anticipates that McDonald's restaurants will continue to be able to purchase adequate supplies of food ingredients and other necessary products.

Operations

The Company attempts, wherever practical, to have decisions made close to the market place. Accordingly, operations of the McDonald's System in the continental United States are divided among nine regional offices (located in metropolitan Los Angeles, Boston, Atlanta, Columbus, Ohio, Washington, D. C., Chicago, San Francisco, New York City and Dallas), supplemented by thirteen district and twenty sub-regional offices. Each region is headed by a Regional Manager who supervises the activities of retail operating personnel groups, generally one group for independently owned and another for Company owned restaurants. McDonald's field consultants are responsible in assigned territories for advising independent licensees as to restaurant operations and ensuring compliance with Company standards; area supervisors perform similar functions for Company owned restaurants.

At both headquarters and regional offices, the Company maintains departments for accounting, advertising, marketing, construction and remodeling, equipment, real estate, licensing, retail operations, personnel, labor relations, purchasing and training. In addition,

the Company maintains, at its national headquarters, separate departments for finance, product development, electronic data processing, legal services and public affairs. The Company also operates a research kitchen, a food research laboratory, an equipment development facility and a developmental restaurant facility. During 1972, 28 employees were engaged in research and development activities and the Company spent approximately \$830,000 for such activities, and during 1973, 33 employees were so engaged and the Company spent approximately \$955,000.

Advertising and Promotion

During 1973, aggregate McDonald's System advertising and promotion expense exceeded \$60,000,000. Advertising is conducted by licensees, by the Company itself, and by Opnad Fund, Inc., an independent corporate entity supported by voluntary contributions of independently and Company owned restaurants. The Company's current License Agreement requires independent licensees to expend 4% of their gross sales revenues for advertising and promotion and the Company also encourages independent licensees to be active in their local communities. Through field personnel, training programs, monthly news letters, meetings and seminars, the Company attempts to keep independent licensees informed of current developments and techniques.

Trademarks, Service Marks and Patents

The Company has certain registered trademarks and service marks, some of which, including "McDonald's", "Ronald McDonald" and other related marks, are of material

importance to the Company's business. The Company also has certain patents on restaurant equipment, which, while valuable, are not deemed material to its business.

Competition

The Company is one of the largest self-service restaurant chains in the country, both in numbers of restaurants and in volume of sales. It believes that it will be able to retain a strong position in the highly competitive restaurant business. McDonald's restaurants compete with national and regional restaurant and carry-out operations, some of which are well organized, operated and capitalized, and with locally owned restaurants, drive-ins and other establishments offering food at low and medium prices. The Company attempts to compete with other restaurants not only in price, but also in terms of offering a quality product served with efficiency, speed and courtesy and by seeking to establish and maintain a high level of public awareness through advertising.

International Operations

As of May 31, 1974, there were 235 McDonald's restaurants in operation outside the United States (including 111 wholly owned by the Company and 58 owned in part). Of these, 138 are located in Canada, 47 in Japan, 13 in Australia, and the remaining 37 in Puerto Rico, Germany, The Netherlands, France, Sweden, Panama, the Virgin Islands, Costa Rica, Guam and El Salvador. An additional 19 restaurants were under construction outside the United States. Operations outside the United States and Canada have not, to date, made a material contribution to the Company's revenues and earnings. On a per restaurant basis, operations in Canada generally produce revenues and profits not

substantially different from domestic restaurants.

Real Estate

The Company's interest in the real estate of the 2,845 McDonald's restaurants in operation on May 31, 1974, was divided approximately as follows:

		Improved leases— lessor has erected and owns building
Owned in fee		
43%		39%
Ground leases— Company has erected building		Company has no interest or obligation
16%		2%

A substantial part of the real estate owned or being purchased by the Company as of May 31, 1974 is subject to mortgages. The mortgages mature over various terms to 20 years. (See Note 5 of Notes to Financial Statements.) The Company's ground leases generally have minimum 20-year terms and many have one or more 5-year renewal options. In the ordinary course of its business, the Company is continually investigating, negotiating for the lease or purchase of, taking options to buy or contracting to purchase, parcels of real estate for new restaurant locations.

All restaurants are built to Company specifications in several basic construction designs. More than 93% of McDonald's restaurant buildings are of its new brick and mansard roof style; less than 7% are of the original red and white tile. The Company continually experiments with variations on the basic building designs, and at May 31, 1974, approximately 82% of McDonald's restaurants (generally those built or remodeled in recent years) had indoor seating. Normally,

McDonald's restaurants provide adjacent parking facilities for 50 to 100 cars, but the System, as of May 31, 1974, includes 95 domestic restaurants located in shopping malls or in urban areas without adjacent parking facilities. From January 1, 1974 to May 31, 1974, 155 restaurants were, or were in the process of being, remodeled.

The approximate average costs for the restaurants opened in 1973 were land—\$101,000, building—\$177,000, equipment—\$97,000.

At May 31, 1974, 213 restaurants were under construction in the United States and Canada compared to 166 restaurants at May 31, 1973.

During the five month period ended May 31, 1974, 130 restaurants were opened compared with 132 in the five month period ended May 31, 1973.

Thirteen McDonald's restaurants (of which five were Company owned) have been closed since January 1, 1965. Ten of these, including six where land was taken by eminent domain proceedings for public use, have been relocated. Three, including two licensed restaurants in Puerto Rico, have not been relocated.

McDonald's occupies approximately 69% of the Company's 305,000 square foot Oak Brook, Illinois office building, completed in August 1971.

Company Owned Restaurants

The 899 restaurants owned by the Company at May 31, 1974 are generally concentrated geographically because of economies and management efficiencies made possible by their proximity to each other. The independently owned restaurants acquired by the Company since January 1, 1969 have generally met

this criterion and usually have been characterized by high sales volume.

Recent Acquisition of Restaurants

Between January 1, 1969 and May 31, 1974 the Company acquired the stock or assets of corporations (or other entities) having an aggregate of 324 restaurants in operation at time of acquisition. Of these, 229 restaurants were accounted for as "poolings of interests", and 95 restaurants were accounted for as purchases. The acquired assets also generally included related real estate interests and territorial rights of the independent licensees.

In the pooling transactions, the Company paid aggregate consideration of approximately \$97,890,000 consisting of \$1,003,000 in liquidation preference of 6% Cumulative Convertible Preferred Stock (1,003 shares) and \$96,887,000 in value (pursuant to contractual formulas) of common stock (approximately 3,283,058 shares). The aggregate net tangible assets of the acquired businesses, based on recent balance sheets at the dates of poolings, approximated \$10,850,000. The Company is obligated to deliver 18,140 additional shares of common stock in one transaction. See Note 8 of Notes to Financial Statements.

See Note (b) to Consolidated Statement of Income and Note 2 of Notes to Financial Statements for a description of the accounting for the pooling transactions and for a restatement of McDonald's operations as originally reported to include operations of the pooled businesses.

In the purchase transactions, the Company paid aggregate consideration of approximately \$26,080,000 consisting of \$16,280,000 in cash and \$9,800,000 in value (pursuant to contractual

formulas) of common stock (808,108 shares). See Note 2 of Notes to Financial Statements.

Between January 1, 1969 and May 31, 1974, the Company sold a total of 167 Company owned restaurant businesses to independent licensees. Generally these were restaurants which either offered no opportunity for centralized management or were not operated at a sufficiently high profit level, but which, under independent ownership and lower overhead costs, normally would produce a satisfactory profit to the owner.

Government Regulation and Pending Legal Proceedings

In recent years various states have adopted laws regulating franchise operations, and similar legislation is pending in additional states. Existing laws and pending proposals vary from disclosure requirements in the sale of franchises to the application of statutory standards regulating established franchise relationships. Federal legislation in this area has also been proposed. In addition, the Federal Trade Commission has proposed rules relating principally to disclosure requirements in the sale of franchises. The Company does not believe it is in violation of any existing statutory or administrative rules, but it cannot predict the effect on its operations from promulgation of additional requirements in the future.

Recently enacted federal legislation raised the hourly minimum wage, effective May 1, 1974, from \$1.60 to \$1.90 and thereafter to \$2.00 on January 1, 1975, to \$2.20 on January 1, 1976 and to \$2.30 on January 1, 1977. The Company does not anticipate that this legislation will have a materially adverse effect on its operations.

From time to time, the Company institutes litigation to enforce the terms of its license agreements, particularly to ensure compliance with its standards of quality, service and cleanliness and to protect its trademarks and service marks.

On March 22, 1973, Barbys Frosted Foods, Inc. filed suit against McDonald's Corporation, three of its subsidiaries, and certain other defendants, principally suppliers, in the United States District Court for the District of New Jersey, charging violations of the Sherman and Clayton Antitrust Acts and New Jersey law. The complaint seeks injunctive relief and treble damages in an unspecified amount. The plaintiff, who was disapproved as a processor of hamburger patties for use by McDonald's restaurants for repeated violations of the Company's quality specifications, alleges that it has been unlawfully restrained from supplying hamburger patties and grocery items to McDonald's restaurants. The plaintiff's motion for a preliminary injunction has been denied. In the opinion of the Company's counsel, Sonnenschein Carlin Nath & Rosenthal, the Company has meritorious defenses to plaintiff's claims.

On April 20, 1973, Vincent Bottino, a former licensee whose license was terminated by the Company, and Lloyd Kypta, an existing licensee, filed an action

against the Company and two of its subsidiaries in the United States District Court for the Southern District of Florida. The plaintiffs assert on behalf of themselves and purportedly others similarly situated that the Company has violated the Federal antitrust and securities laws. Plaintiffs seek an injunction prohibiting the Company from enforcing any regulation or practice that is not found to have a legitimate purpose in protecting or enhancing the value of the Company's trademarks or trade names and treble damages for any damages resulting from such practices. It is the opinion of the Company's counsel, Sonnenschein Carlin Nath & Rosenthal, that the Company has meritorious defenses to the action.

The Company, on March 5, 1974, terminated the license agreement of Jerry Brownrout Corp. for failure to maintain minimum operational standards at the McDonald's restaurant in Amherst, New York. On March 13, 1974, the licensee applied to the U. S. District Court for the Western District of New York for a temporary restraining order to prevent the Company from terminating the lease and license or taking possession of the premises, which application has not yet been adjudicated. At the same time, the licensee filed a suit against the Company alleging various breaches

of contract, tortious activities, and violations of the federal antitrust laws, and claiming actual and punitive damages of \$15,500,000. The Company has not yet engaged in discovery or been able otherwise to ascertain the facts or theories upon which the plaintiff's claims are based. However, a preliminary review of the complaint indicates that a number of the allegations are factually incorrect, and that the Company has meritorious defenses to all of the claims.

Environmental and Energy Matters

Various proposals have been made at both the State and Federal levels for new legislation and regulations concerning environmental matters. While the Company is not aware of any present Federal or state environmental statutes or regulations which will materially affect its operations or result in material capital expenditures, it cannot predict the effect on its operations from possible future legislation or regulation.

The Company's operations have not been materially affected by energy shortages. However, inability to obtain fuel used by its restaurants would have a material adverse effect on the Company and any severe shortage of gasoline might result in a diminution of the sales volume of the McDonald's System.

Management

Officers and Directors

The officers and directors of the Company are shown below. Directors and officers have terms of office until the Company's May, 1975 annual meetings of stockholders and directors, respectively.

Name	Office	Age	Number of years with company	Number of years in present position
Norman D. Axelrad	Vice President	44	14	2
Clark S. Baldwin	Vice President	38	8	2
Steven J. Barnes	Executive Vice President, President International Division	54	13	6
Frank Behan	Regional Vice President	40	13	3
Richard J. Boylan	Senior Executive Vice President and Chief Financial Officer, Director	56	16	6
G. Brent Cameron	Executive Vice President	40	13	3
James R. Cantalupo	Controller	31	1	1
Burton D. Cohen	Assistant Secretary and Assistant General Counsel	34	10	5
Terrence Collins	Regional Vice President	32	6	1
John D. Cooke	Vice President	45	7	7
John L. Coons	Vice President	41	12	4
Paul R. Duncan	Assistant Vice President and Assistant General Counsel	41	4	1
Seymour Greenman	Assistant Vice President and Assistant Secretary	39	9	4
Bernard T. Hall	Regional Vice President	40	12	3
Donald P. Horwitz	Secretary, Vice President and General Counsel	38	2	2
H. Cliff Hullender	Regional Vice President, Advisory Director*	37	12	6
John Johnson	Regional Vice President	34	9	1
Noel Kaplan	Assistant Vice President and Assistant General Counsel	35	2	1
Ray A. Kroc	Chairman of the Board of Directors and Director	72	19	19
James Kuhn	Vice President	39	12	1
William B. Moore, Jr.	Vice President	43	3	1
Gerald Newman	Executive Vice President, Principal Accounting Officer and Director	43	13	2
Robert A. Papp	Vice President	49	16	6
Frank Phalen	Regional Vice President	38	11	2
Michael Quinlan	Regional Vice President	29	9	1
Lynal Root	Vice President	43	8	1
Robert B. Ryan	Treasurer and Vice President	54	11	7
Luigi Salvaneschi	Vice President	44	11	5
James C. Schindler	Executive Vice President—Design	55	16	5
Edward H. Schmitt	Senior Executive Vice President and Chief Operating Officer, Director	48	10	1
Paul D. Schrage	Executive Vice President	39	6	4
Donald Smith	Executive Vice President, Advisory Director*	33	8	1
Fred L. Turner	President and Chief Executive Officer, Director	41	18	6
Donald G. Lubin	Director	40	7**	
J. R. Simplot	Director	65	6**	
Allen P. Stults	Director	61	8**	
David B. Wallerstein	Director	69	6**	

Ray A. Kroc founded the Company. Each of the officers (except Messrs. Cantalupo, Duncan, Horwitz, Kaplan and Moore) has been continuously employed by the Company for at least five years.

*The Board of Directors annually appoints three executives to serve in this non-voting capacity. The Advisory Director not listed above is George Cohon, President of the Company's principal Canadian subsidiaries.

**Number of years service as a director.

Before joining the Company on July 26, 1974, Mr. Cantalupo spent eight years with Arthur Young & Company, the last three as a manager. Before joining the Company in December, 1972, Mr. Horwitz spent six years with Arthur Young & Company and had been a partner since October, 1971. Mr. Moore spent 11 years with International Harvester Company, the last three as divisional manager in data processing, before coming to the Company in September, 1971. Mr. Duncan spent seven years with Interlake, Inc. as a corporate attorney before joining the Company in 1970. Before joining the Company in June, 1973, Mr. Kaplan spent three years with First Combined Enterprises, Inc. as a Director and Vice President and

General Counsel and one year with the Retail Stores Division of Hart Schaffner & Marx, Inc. as general counsel.

For the past five years, Mr. Lubin has been a partner of Sonnenschein Carlin Nath & Rosenthal; Mr. Simplot was President of J. R. Simplot Company (a diversified food, livestock, lumber, mineral and chemical company) until 1973, at which time he became Chairman of the Board; Mr. Stults has been Chairman of the Board of American National Bank and Trust Company of Chicago and, since 1973, has also been President of Walter E. Heller International Corporation; and Mr. Wallerstein has been a business consultant. (See "Management—Other Transactions Involving Management".) As of June 30, 1974,

Mr. Kroc owned 6,887,902 shares of the Company's outstanding common stock of record and beneficially (constituting approximately 17.3% of the Company's outstanding common stock), and The Kroc Foundation, of which Mr. Kroc is Chairman of the Board and a director owned 100,000 shares (constituting approximately 1/4 of 1%) of record and beneficially. Mr. Kroc's wife owns an additional 55,000 shares (constituting approximately 1/8 of 1%) in which he disclaims beneficial ownership. As of May 31, 1974, all officers and directors of the Company as a group (other than Mr. Kroc) owned approximately 291,294 shares of common stock or approximately 3/4 of 1% of the shares outstanding.

Remuneration

The following table contains information with respect to remuneration paid or set aside by the Company and its subsidiaries

for services in all capacities during 1973 to each of its three highest paid officers, to each of its other directors whose direct aggregate

remuneration exceeded \$40,000, and to all directors and officers as a group:

Name	Capacities in which remuneration was received	Aggregate remuneration	Amount set aside under profit sharing plan for 1973	Account balance under profit sharing plan as of December 31, 1973
Ray A. Kroc	Chairman of the Board of Directors	\$ 175,000	\$ 0	\$ 0
Fred L. Turner	President and Chief Executive Officer	165,000	15,800	78,096
Richard J. Boylan	Senior Executive Vice President and Chief Financial Officer	100,833	9,656	55,782
Edward H. Schmitt	Senior Executive Vice President and Chief Operating Officer	80,000	7,661	29,998
Gerald Newman	Executive Vice President	80,937	7,750	31,013
All Directors and Officers as a group (33 persons)		2,074,949*	170,063	732,804

*The Company, at its expense, maintains an insurance policy indemnifying the Company's

directors and officers (and others) against certain civil liabilities,

including liabilities under the Securities Act of 1933.

Employee Stock Options

1968 Qualified Stock Option Plan
The McDonald's Corporation Qualified Stock Option Plan (the "1968 Plan") which became effective in 1968 terminated on April 30, 1973, and no further options may be granted thereunder. The 1968 Plan met the requirements of Section 422 of the Internal Revenue Code, so that options granted thereunder

are treated as "qualified stock options." Under the 1968 Plan the purchase price of option shares was their fair market value on the option date. Employees may exercise their options in four equal annual installments, and any part of an unexercised installment may be exercised prior to the expiration of the option. Options expire five years from date of grant.

Only key employees of the Company and its subsidiaries were eligible to receive options under the 1968 Plan.

1973 Stock Option Plan

On May 15, 1973, the Company's stockholders adopted the 1973 Stock Option Plan ("1973 Plan"). On May 6, 1974 the Company's stockholders adopted an amendment thereto.

Under the 1973 Plan, as amended, 584,157 shares (which represented 1.48% of the Company's shares outstanding on December 31, 1973) have been reserved for issuance.

Under the 1973 Plan, as amended, the purchase price of option shares cannot be less than their fair market value on the option date. The Company will receive no monetary consideration for the grant of any option but believes that the grants of options to employees will stimulate their efforts on behalf of the Company and strengthen their desire to continue in the Company's service. The 1973 Plan, as amended, consists of a "Qualified Section" and a "Non-Qualified Section".

The 1973 Plan, as amended, will terminate on May 14, 1978, but may be sooner terminated by the Board of Directors without affecting outstanding options. The Board may also further modify the 1973 Plan, but may not without the approval of stockholders (except in case of a change in capital structure): increase the number of shares reserved for options; change the manner of determining the option price; increase the maximum term of options; or change the class of

persons eligible to receive options. The 1973 Plan, as amended, is administered by an Option Committee consisting of four members of the Board of Directors.

Shares subject to an option or portion thereof which has expired or terminated are available for the grant of future options. If an employee exercises a qualified option but his employment is terminated within one year of the grant of the option, the Company has a right, subject to certain exceptions, to repurchase the shares at the option price.

All employees of the Company and its subsidiaries are eligible to receive options under the 1973 Plan, as amended, except clerical employees, persons (other than managers) employed in Company-owned restaurants and Mr. Kroc or any other person who directly or indirectly owns shares representing more than five percent of the total combined voting power or value of all classes of the Company's stock or that of any of its subsidiaries.

The Qualified Section meets the requirements of Section 422 of the Internal Revenue Code so that

options granted thereunder will be treated as "qualified stock options". Options granted pursuant to the Qualified Section may be exercised in four equal installments and any part of an unexercised installment may be exercised prior to the expiration of the option. Options expire five years from the date of grant.

The Non-Qualified Section does not meet the requirements of Section 422 of the Internal Revenue Code, and, as a result, options granted thereunder will be treated as "non-qualified stock options". Options granted pursuant to the Non-Qualified Section may be exercised in five equal biennial installments, commencing on the first anniversary of the date of grant; and any part of an unexercised installment may be exercised prior to the expiration of the option. Options expire ten years from date of grant.

Outstanding Options

The following table contains information with respect to the 356,980 and 362,933 shares of common stock which at June 30, 1974, were subject to existing options under the 1968 and 1973 Plans, respectively:

Options expire:	Exercise price:	Fred L. Turner	Richard J. Boylan	Edward H. Schmitt	Gerald Newman	Held by:		
						All other officers	All other employees	
1968 Plan								
3/20/75	\$12.75	—	—	—	—	4,320	5,135	
12/ 6/76	\$34.75	—	—	2,000	3,200	21,680	70,430	
3/ 8/77	\$47.00	—	—	—	—	—	300	
7/17/77	\$52.38	—	—	800	5,000	37,070	112,540	
11/ 3/77	\$64.00	—	—	—	—	—	800	
12/18/77	\$71.00	—	—	—	—	6,000	—	
2/15/78	\$71.88	—	—	—	—	12,100	69,280	
4/26/78	\$59.12	—	—	—	—	—	6,325	
1973 Plan								
7/12/78 (qualified)	\$60.00	3,750	3,000	2,250	2,250	35,500	37,350	
7/12/83 (non-qualified)	\$60.00	—	—	—	—	—	114,700	
10/ 2/78 (qualified)	\$71.75	—	—	—	—	—	1,400	
10/ 2/83 (non-qualified)	\$71.75	—	—	—	—	—	1,550	
6/19/79 (qualified)	\$58.12	—	—	3,752	—	17,904	39,336	
6/19/84 (non-qualified)	\$58.12	—	—	—	—	—	100,191	

On October 14, 1974, the closing price of the Company's common stock on the New York Stock Exchange was \$30.38 per share.

Of the 900,000 and 584,157 shares of common stock originally reserved for issuance under the 1968 Plan and 1973 Plan, as amended, respectively, at May 31, 1974, 465,429 and no shares, respectively,

had been issued pursuant to the exercise of options by employees (some of whom are no longer employed by the Company). (See Note 9 of Notes to Financial Statements.)

The following table contains information regarding the exercise by officers and directors of options between January 1, 1971 and May 31, 1974:

Name	Number of shares	Aggregate purchase price	Aggregate market value on date of purchase
Fred L. Turner	18,000	\$ 157,140	\$ 764,496
Richard J. Boylan	18,000	\$ 157,140	\$ 794,460
Edward H. Schmitt	12,200	\$ 197,981	\$ 577,418
Gerald Newman	6,800	\$ 85,615	\$ 279,215
All Other Present Officers as a Group (24 Persons)	140,710	\$1,741,576	\$6,308,964
All Former Officers as a Group (5 Persons)	28,700	\$ 337,137	\$1,127,858

Profit Sharing Plan

During the year ended December 31, 1973, approximately 2,000 officers and employees of the Company were eligible to participate in the McDonald's Corporation Profit Sharing Plan. All contributions to the plan are made by the Company in an amount determined annually by the Board of Directors, but in no event are contributions in any year to exceed the maximum amount then deductible for federal income tax purposes. Since the inception of the plan in 1965, total Company contributions through 1973 approximated \$6,100,000. Contributions are allocated annually among participating employees, on the basis (with certain minor exceptions) of the ratio of the employee's compensation for the year to the total compensation of all participating employees. On May 31, 1974 the Profit Sharing Fund held 11,000 shares of the Company's common stock.

Other Transactions Involving Management

The Company uses a jet airplane and fourteen buses owned by

Mr. Kroc and purchased by him at an aggregate cost of approximately \$6,200,000. The Company pays the operating expenses and insurance of the airplane and buses, which for the 12 months ended June 30, 1974 aggregated approximately \$890,000 before taxes. This arrangement, made at the time the airplane and the first bus were acquired, was based in part on an assumption as to the extent of Mr. Kroc's use of the airplane and buses. The arrangement does not limit Mr. Kroc's use of the plane and buses, which use takes priority over use by Company personnel. This arrangement is subject to cancellation by either party on 30 days notice. If the Company had owned the airplane and buses during the 12 month period ended June 30, 1974, and if it had received no reimbursement for personal use, the Company estimates that depreciation expense for the period would have amounted to approximately \$240,000 after related income taxes.

As of May 31, 1974, certain relatives of Mr. Kroc and Mr. Turner owned substantial interests in an

aggregate of nine McDonald's restaurants. The terms of the licenses and leases under which these restaurants are operated are substantially similar to those contained in licenses and leases to unaffiliated persons entered into at that time.

Mr. J. R. Simplot, a director of the Company, is Chairman of the Board of J. R. Simplot Company, which supplies frozen french fried potatoes to both Company and independently owned restaurants. Annual sales by J. R. Simplot Company to the McDonald's system in 1971, 1972 and 1973 approximated \$27,055,000, \$36,158,000 and \$35,764,000, respectively. Prices in these transactions were no greater than those of similar goods available from unaffiliated persons in the same quantities.

The Company incurred legal fees of \$321,405 in 1973 to the firm of Sonnenschein Carlin Nath & Rosenthal, of which Donald G. Lubin, a director of the Company, is a partner.

American National Bank and Trust Company of Chicago, of which Allen P. Stults, a director of the Company, is Chairman of the Board, is one of the Company's transfer agents, one of its lenders, was Trustee under the Indenture securing the Company's debentures, (all of which were converted into common stock during 1972) and will be Trustee under the Indenture securing the Notes offered hereby. See "Description of Notes—The Trustee". The Company from time to time maintains substantial deposits at that bank.

Description of Notes

The Notes are to be issued under an Indenture to be dated as of October 15, 1974 (the "Indenture") between the Company and American National Bank and Trust Company of Chicago, as Trustee (the "Trustee"). The statements under this heading are subject to the detailed provisions of the Indenture, a copy of which is filed as an Exhibit to the Registration Statement. References in parentheses are to the Indenture and wherever particular provisions of the Indenture are referred to such provisions are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by such reference to the Indenture.

General

The Notes will be limited to \$60,000,000 in aggregate principal amount and will be unsecured obligations of the Company. The Notes are to mature October 15, 1982, and will bear interest at the annual rate stated on the cover page hereof from the most recent date to which interest has been paid on the Notes, or if no interest has been paid on the Notes, from October 15, 1974. Interest will be payable semi-annually on each April 15 and October 15 to the persons in whose names the Notes are registered at the close of business on the preceding March 31 or September 30 respectively. Principal and interest will be payable, and Notes will be transferable, at the corporate trust office of the Trustee, presently located at 33 North La Salle Street, Chicago, Illinois 60690, and at the New York City facility of the Trustee, presently located c/o The Bank of New York, 90 Washington Street, New York, New York 10015, provided that interest is payable at the Company's option by check mailed to the registered holder's address appearing on the Note Register. The Notes are to be issued

in fully registered form in denominations of \$1,000 and any integral multiple thereof. (Article Three, § 2-2)

Redemption Provisions

The Notes will be subject to redemption on at least 30 days' notice, at the Company's option, at any time between April 15, 1981 and maturity, as a whole or from time to time in part, at 100% of their principal amount, together in each case with interest accrued to the redemption date. The particular Notes or portions thereof to be redeemed will be selected by the Trustee in such manner as in its sole discretion it shall deem appropriate and fair. (Article Eleven)

Events of Default

The following will constitute Events of Default: (a) default in the payment of interest when due, continued for 30 days; (b) default in the payment of principal when due; (c) default in the performance of any covenant (other than the ratio maintenance set forth in § 10-9) of the Company in the Indenture, continued for 30 days after written notice; and (d) certain events of bankruptcy, insolvency or reorganization. If an Event of Default occurs and is continuing, the Trustee or the holders of not less than 66⅔% in aggregate principal amount of the Notes then outstanding may declare the Notes due and payable immediately. (§§ 5-1 and 5-2)

The holders of a majority in aggregate principal amount of the Notes outstanding at the time may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that such direction shall not be in conflict with any rule of law or the Indenture. (§ 5-12)

The Company will be required to furnish to the Trustee annually a

statement as to the fulfillment by the Company of its obligations under the Indenture. (§ 10-6)

Certain Covenants and Ratios

The Company covenants to deliver a schedule of Real Property (the "Scheduled Real Property") to the Trustee at the time the Notes are issued. The Scheduled Real Property will have a Net Book Value of not less than \$80,000,000 and will be unencumbered (as defined in § 10-11) at the time of delivery. The Company covenants not to encumber Scheduled Real Property while any of the Notes are outstanding except to secure the Notes.

The Company also covenants: (a) to maintain Property, Plant and Equipment with a Net Book Value not less than 150% of Funded Debt; (b) that Earnings Available for Interest and Rentals for the preceding 12 month period will not be less than 250% of interest expense and rental expense for such period; (c) that Cash Flow for the preceding 12 month period will not be less than 15% of Funded Debt at the end of such period; and (d) that the Net Book Value of Scheduled Real Property or Real Property subject to First Mortgages will at all times be not less than 125% of the principal amount of outstanding Notes. (§ 10-9) The Company will furnish quarterly statements concerning the maintenance of such ratios to the Trustee. (§ 10-6) In the event any such statement shows that the Company is not in compliance with any of the ratios (other than the ratio described in (d) above) the Company would be required within 60 days after the delivery of the statement to deliver to the Trustee First Mortgages on the Scheduled Real Property for the purpose of securing the Notes. In the event Net Book Value does not meet the 125% ratio described in (d) above, the Company is obligated

to add to the Real Property scheduled or to deliver (within 60 days after delivery of the statement) First Mortgages on sufficient additional Real Property to comply with the ratio. The Company also has the right to deliver First Mortgages, as stated above, while in compliance with the ratios. Upon such delivery the Company would no longer be required to maintain the ratios except that referred to in (d) above. (§ 10-9) Until First Mortgages are delivered, payment of principal and interest of the Notes will be guaranteed, jointly and severally, by all of the Company's wholly owned subsidiaries.

If Net Book Value of Scheduled Real Property (or of Real Property subject to First Mortgages) exceeds 133⅓ % of the principal amount of Notes outstanding, the Company will be entitled either (1) to remove Real Property from the schedule or (2) if such Real Property has been made subject to First Mortgages, to have First Mortgages released, in either case to the extent of such excess. If the Company desires to sell Scheduled Real Property, whether or not subject to First Mortgages, it has the right to do so, provided it substitutes other Real Property of equivalent Net Book Value. (§ 10-10(a))

For two years after the date of the Indenture, the Company also has the right to substitute other Real Property for Scheduled Real Property, whether or not subject to First Mortgages, provided that the substituted Real Property has a Net Book Value at least equal to that of the Real Property for which it is substituted and provided further that the aggregate Net Book Value of Real Property for which substitution is sought does not exceed 35% of the Net Book Value of all Scheduled Real Property. (§ 10-10(b))

Compliance by the Company and its Subsidiaries with the foregoing

restrictions and limitations may be waived in a particular instance by the holders of at least 66⅔ % of the outstanding principal amount of the Notes. (§ 10-12)

Certain Definitions

The following definitions are quoted from the Indenture:

Cash Flow:

The term "Cash Flow" shall mean all working capital from operations of the Company and its consolidated subsidiaries.

Earnings Available for Interest and Rentals:

The term "Earnings Available for Interest and Rentals" shall mean the sum of (a) interest expense and rental expense deducted in arriving at income before income taxes of the Company and its consolidated subsidiaries, plus (b) income before income taxes of the Company and its consolidated subsidiaries.

First Mortgages:

The term "First Mortgages" shall mean mortgages in recordable form securing the Notes and naming the Trustee as mortgagee. First mortgages shall be in the form which is in current use by the Company for loans from institutional investors within the appropriate jurisdiction and shall afford a first lien (except for encumbrances permitted by this Indenture) on the Real Property.

Funded Debt:

The term "Funded Debt" shall mean indebtedness (other than deferred income taxes, security deposits by lessees and interim loans for construction) incurred either for money borrowed or in connection with the acquisition of any or all of the stock or assets of a corporation or other entity (whether by purchase, merger, or otherwise), if such indebtedness by its term matures at, or is extendable or

renewable at the option of the obligor to, a date more than 12 months after the date of determination of such indebtedness.

Net Book Value:

The term "Net Book value" shall mean the cost of any asset less accumulated depreciation and amortization.

Property, Plant and Equipment:

The term "Property, Plant and Equipment" shall mean land, buildings, improvements on owned land, buildings on leased land, leases, leasehold improvements, equipment, signs for restaurants, furniture, fixtures and other equipment, owned by the Company and its Subsidiaries.

Real Property:

The term "Real Property" shall mean land, buildings and improvements on owned land, owned in fee simple by the Company and its Subsidiaries and not subject to any encumbrances other than those permitted by this Indenture.

Subsidiary:

The term "Subsidiary" shall mean any corporation of which the Company, or the Company and one or more Subsidiaries, or any one or more Subsidiaries, directly or indirectly own voting securities entitling the holders thereof to elect a majority of the directors, either at all times or so long as there is no default or contingency which permits the holders of any other class or classes of securities to vote for the election of one or more directors.

Cash Flow, Earnings Available for Interest and Rentals, Funded Debt, Net Book Value, and Property, Plant and Equipment for the purposes of the Indenture and interest expense and rental expense as used in the definitions of Earnings Available for Interest and Rentals and in Section 10-9(b) are all to be determined in accordance with the accounting principles

used in the preparation of the Company's financial statements for the year ended December 31, 1973.

Modification of Indenture

The Indenture and rights of the holders of Notes may be modified only with the consent of the holders of at least 66⅔% in principal amount of the outstanding Notes; but no change in the stated maturity of principal or interest on the Notes, or reduction of principal or rate of interest, will be effective against any Note holder without the holder's consent and no

reduction of the percentage required for modification will be effective without the consent of the holders of all the outstanding Notes. (§ 9-2)

The Trustee

American National Bank and Trust Company of Chicago, of which Allen P. Stults, a director of the Company, is Chairman of the Board, is a depository for funds of, makes loans to and performs other services for the Company in the normal course of business. It is also one of the Company's transfer agents. See "Management—

Other Transactions Involving Management".

Underwriting

The Underwriters named below, for whom Paine, Webber, Jackson & Curtis Incorporated is acting as Representative, have agreed severally to purchase from the Company the principal amounts of Notes set forth opposite their respective names upon the terms and subject to the conditions of the Underwriting Agreement, a copy of the form of which is filed as an exhibit to the Registration Statement.

Underwriter	Principal Amount of Notes
Paine, Webber, Jackson & Curtis Incorporated	\$12,900,000
Blyth Eastman Dillon & Co. Incorporated	1,000,000
The First Boston Corporation	1,000,000
Drexel Burnham & Co. Incorporated	1,000,000
Goldman, Sachs & Co.	1,000,000
Halsey, Stuart & Co. Inc.	1,000,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	1,000,000
E. F. Hutton & Company Inc.	1,000,000
Kidder, Peabody & Co. Incorporated	1,000,000
Kuhn, Loeb & Co.	1,000,000
Lazard Freres & Co.	1,000,000
Lehman Brothers Incorporated	1,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	1,000,000
Reynolds Securities Inc.	1,000,000
Salomon Brothers	1,000,000
Smith, Barney & Co. Incorporated	1,000,000
Wertheim & Co., Inc.	1,000,000
White, Weld & Co. Incorporated	1,000,000
Dean Witter & Co. Incorporated	1,000,000
Shearson Hayden Stone Inc.	1,000,000
Basle Securities Corporation	650,000
Alex. Brown & Sons	650,000
The Daiwa Securities Co. America, Inc.	650,000
Dominick & Dominick, Incorporated	650,000
Edwards & Hanly	650,000
Robert Fleming Incorporated	650,000
Antony Gibbs Holdings Ltd.	650,000
Harris, Upham & Co. Incorporated	650,000
Hill Samuel & Co. Limited	650,000
Moseley, Hallgarten & Estabrook Inc.	650,000
New Court Securities Corporation	650,000
The Nikko Securities Co., International, Inc.	650,000
Pitfield, Mackay & Co., Inc.	650,000
R. W. Pressprich & Co. Incorporated	650,000
L. F. Rothschild & Co.	650,000

Underwriter	Principal Amount of Notes
Shields Model Roland Securities Incorporated	\$ 650,000
SoGen-Swiss International Corporation	650,000
Thomson & McKinnon Auchincloss Kohlmeyer Inc.	650,000
Spencer Trask & Co. Incorporated	650,000
Tucker, Anthony & R. L. Day	650,000
UBS-DB Corporation	650,000
G. H. Walker, Laird Incorporated	650,000
Weeden & Co. Inc.	650,000
Westdeutsche Landesbank Girozentrale	650,000
Wood, Struthers & Winthrop Inc.	650,000
F. Eberstadt & Co., Inc.	350,000
Faulkner, Dawkins & Sullivan Securities Corp.	350,000
McDonald & Company	350,000
Mitchell, Hutchins Inc.	350,000
New York Securities Co. Incorporated	350,000
C. E. Unterberg, Towbin Co.	350,000
Abraham & Co. Inc.	250,000
Advest Co.	250,000
Bacon, Whipple & Co.	250,000
Robert W. Baird & Co. Incorporated	250,000
Bateman Eichler, Hill Richards Incorporated	250,000
William Blair & Company	250,000
J. C. Bradford & Co.	250,000
Butcher & Singer	250,000
The Chicago Corporation	250,000
Crowell, Weeden & Co.	250,000
Dain, Kalman & Quail, Incorporated	250,000
Elkins, Morris, Stroud & Co.	250,000
Eppler, Guerin & Turner, Inc.	250,000
Fahnestock & Co.	250,000
First of Michigan Corporation	250,000
First Southwest Company	250,000
Freehling & Co.	250,000
Fulton, Reid & Staples, Inc.	250,000
Johnston, Lemon & Co. Incorporated	250,000
Legg Mason/Wood Walker	250,000
Division of First Regional Securities, Inc.	250,000
Loewi & Co. Incorporated	250,000
Manley, Bennett, McDonald & Co.	250,000
McCormick & Co., Incorporated	250,000
Mesirow & Company	250,000
The Milwaukee Company	250,000
Moore, Leonard & Lynch, Incorporated	250,000
Moore & Schley, Cameron & Co.	250,000
The Ohio Company	250,000
Piper, Jaffray & Hopwood Incorporated	250,000
Prescott, Ball & Turben	250,000
Rauscher Pierce Securities Corporation	250,000
The Robinson-Humphrey Company, Inc.	250,000
Stern Brothers & Co.	250,000
Sterne, Agee & Leach, Inc.	250,000
Stuart Brothers	250,000
Sutro & Co. Incorporated	250,000
Underwood Neuhaus & Co. Incorporated	250,000

Underwriter	Principal Amount of Notes
Wagenseller & Durst, Inc.	\$ 250,000
Watling, Lerchen & Co. Incorporated	250,000
Total	<u>\$60,000,000</u>

The nature of the Underwriters' obligations under the Underwriting Agreement is such that they must take and pay for all of the Notes if any are purchased.

The Notes are being offered severally by the Underwriters subject to prior sale, when, as and if delivered to and accepted by the Underwriters and subject to the approval of certain legal matters by counsel. The Underwriters reserve

the right to withdraw, cancel or modify such offer or to reject orders in whole or in part.

The Company has been advised by Paine, Webber, Jackson & Curtis Incorporated on behalf of the Underwriters that they propose to allow a concession of .40% of the principal amount of the Notes to dealers of which .25% of the principal amount may be reallocated to certain other

dealers. After the initial public offering, the public offering price and the concession and reallocation may be changed by the Representative.

The Company and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities arising under the Securities Act of 1933, as amended.

Legal Opinions

Sonnenschein Carlin Nath & Rosenthal, 69 West Washington Street, Chicago, Illinois 60602 is acting as counsel for the Company and Gardner, Carton, Douglas, Chilgren & Waud, One First National Plaza, Chicago, Illinois

60670, is acting as counsel for the Underwriters in connection with the offering herein. As of May 31, 1974, attorneys in the firm of Sonnenschein Carlin Nath & Rosenthal owned an aggregate of 2,837 shares of the Company's

common stock. As of June 21, 1974, a member of the firm of Gardner, Carton, Douglas, Chilgren & Waud and members of his immediate family owned an aggregate of 2,160 shares.

Experts

The financial statements at December 31, 1973 and for the three and five years then ended and the consolidated statement of income for the five years ended December

31, 1973, appearing in this Prospectus and Registration Statement, have been examined by Arthur Young & Company, certified public accountants, as set forth in

their report appearing elsewhere herein and are included in reliance upon such report and upon the authority of such firm as experts.

Additional Information

This Prospectus does not contain all the information set forth in the Registration Statement, which the Company has filed with the Securities and Exchange Commission,

Washington, D. C., 20549, with respect to the common stock. For further information with respect to the Company, and the securities offered hereby, reference is made to

the Registration Statement including the exhibits, financial statements and schedules filed as a part thereof.

Report of Certified Public Accountants

The Board of Directors
McDonald's Corporation

We have examined the accompanying balance sheets (Parent Company and Consolidated) of McDonald's Corporation at December 31, 1973, the related statements of income for the three years (Parent Company) and five years (Consolidated) then ended, the statements of retained earnings and additional paid-in capital (Parent Company and Consolidated) for the five years then ended and the statements of changes in financial position (Parent Company and Consolidated) for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position (Parent Company and Consolidated) of McDonald's Corporation at December 31, 1973, the results of operations for the three years (Parent Company) and the five years (Consolidated) then ended and the changes in financial position (Parent Company and Consolidated) for the three years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR YOUNG & COMPANY

Chicago, Illinois
June 12, 1974, except as to Note 5
as to which the date is October 10, 1974

McDonald's Corporation and McDonald's Corporation and Subsidiaries

Balance sheets, December 31, 1973

Assets		
	Parent Company	Consolidated
Current assets:		
Cash	\$ 16,116,000	\$ 48,253,000
Certificates of deposit	35,000	3,604,000
Short-term investments, at cost, which approximates market	301,000	25,357,000
Notes receivable	1,187,000	2,713,000
Accounts receivable	3,248,000	14,653,000
Inventories (Note 3)		6,346,000
Due from subsidiaries	5,450,000	
Prepaid expenses and other current assets	1,275,000	8,907,000
Total current assets	27,612,000	109,833,000
Investments in and advances to consolidated subsidiaries:		
Investments, at equity	163,672,000	
Advances	125,054,000	
Total investments and advances	288,726,000	
Other assets and deferred charges:		
Notes receivable due after one year	4,127,000	14,729,000
Investment in and advances to 50% owned domestic affiliate		4,333,000
Miscellaneous	2,256,000	10,394,000
Total other assets and deferred charges	6,383,000	29,456,000
Property, plant and equipment, at cost (Notes 1b and 5):		
Land	33,003,000	136,675,000
Buildings and improvements on owned land	38,064,000	180,338,000
Buildings on leased land, leases and leasehold improvements	16,426,000	101,728,000
Equipment and signs for restaurants		86,487,000
Furniture, fixtures and other equipment	4,398,000	9,315,000
	91,891,000	514,543,000
Less accumulated depreciation and amortization	7,720,000	56,179,000
Net property, plant and equipment	84,171,000	458,364,000
Intangible assets (Note 4)	467,000	30,030,000
Less accumulated amortization (Notes 1c and 4)	23,000	3,540,000
Net intangible assets	44,000	26,490,000
	<u>\$407,336,000</u>	<u>\$624,143,000</u>

See accompanying notes.

McDonald's Corporation and McDonald's Corporation and Subsidiaries

Balance sheets, December 31, 1973

Liabilities and Stockholders' Equity

	Parent Company	Consolidated
Current liabilities:		
Notes payable	\$ 375,000	\$ 1,189,000
Accounts payable	3,769,000	39,313,000
Income taxes	7,079,000	19,639,000
Other accrued liabilities	2,102,000	12,693,000
Current maturities of long-term debt	1,715,000	14,514,000
Total current liabilities	15,040,000	87,348,000
Interim loans for construction, covered by mortgage commitments (Note 5)		4,500,000
Long-term debt (Note 5):		
Mortgage notes	33,335,000	123,256,000
Other notes payable	83,751,000	106,816,000
Total long-term debt	117,086,000	230,072,000
Deferred income taxes	2,715,000	13,111,000
Security deposits by lessees (Note 7)	10,535,000	27,152,000
Commitments and contingent liabilities (Notes 6 and 7)		
Stockholders' equity (Note 8):		
Series preferred stock, no par value—		
Authorized—300,000 shares		
Issued and outstanding—845 shares	845,000	845,000
Common stock, no par value—		
Authorized—100,000,000 shares		
Issued and outstanding—39,528,604 shares	4,396,000	4,396,000
Additional paid-in capital	82,202,000	82,202,000
Retained earnings (Note 5)	174,517,000	174,517,000
Total stockholders' equity	261,960,000	261,960,000
	<u>\$407,336,000</u>	<u>\$624,143,000</u>

See accompanying notes.

McDonald's Corporation (parent company)

Statement of income

	Year ended December 31,		
	1971	1972	1973
Revenues:			
Rental income (including \$4,180,000 in 1971, \$5,834,000 in 1972 and \$8,412,000 in 1973, from subsidiaries)	\$16,498,000	\$21,683,000	\$31,498,000
Service fees from subsidiaries	3,805,000	4,991,000	7,316,000
Other fees from subsidiaries (Note 1g)	6,237,000	8,193,000	10,780,000
Initial location fees	120,000	137,000	185,000
Interest income from subsidiaries—net	4,441,000	4,239,000	12,609,000
Interest and other income—net	354,000	610,000	(30,000)
Total revenues	31,455,000	39,853,000	62,358,000
Costs and expenses:			
Expenses applicable to rental income—			
Rent	4,008,000	5,634,000	6,584,000
Depreciation and amortization	1,151,000	1,290,000	1,898,000
Interest expense	1,042,000	1,354,000	2,431,000
	6,201,000	8,278,000	10,913,000
General, administrative and selling expenses (Note 1g)	12,826,000	16,556,000	22,237,000
Other interest charges	4,382,000	995,000	3,613,000
Total costs and expenses	23,409,000	25,829,000	36,763,000
Income before income taxes and equity in net earnings of consolidated subsidiaries	8,046,000	14,024,000	25,595,000
Provision for income taxes:			
Current—			
Federal:			
Provision before investment tax credit	3,283,000	6,772,000	11,234,000
Investment tax credit	(121,000)	(229,000)	(318,000)
State	68,000	203,000	868,000
Deferred	538,000	435,000	1,002,000
	3,768,000	7,181,000	12,786,000
Income before equity in net earnings of consolidated subsidiaries ...	4,278,000	6,843,000	12,809,000
Equity in net earnings of consolidated subsidiaries	22,950,000	30,226,000	39,183,000
Net Income	<u>\$27,228,000</u>	<u>\$37,069,000</u>	<u>\$51,992,000</u>

See accompanying notes.

McDonald's Corporation and McDonald's Corporation and Subsidiaries

Statement of retained earnings

	Year ended December 31,				
	1969	1970	1971	1972	1973
Balance at beginning of year, as originally reported	\$25,588,000				
Restatement for businesses acquired through poolings of interests during 1970, 1971, 1972 and 1973 (Note 2)	3,361,000				
Balance at beginning of year, as restated ...	28,949,000	41,769,000	59,732,000	86,511,000	122,576,000
Net income	14,933,000	18,738,000	27,228,000	37,069,000	51,992,000
Adjustments related to pooled businesses ..	306,000	(20,000)	247,000	397,000	
	44,188,000	60,487,000	87,207,000	123,977,000	174,568,000
Deduct:					
Dividends paid on preferred stock—\$60 per share annual rate	38,000	60,000	60,000	60,000	51,000
Distributions of pooled businesses prior to acquisition	962,000	695,000	636,000	1,341,000	
Excess of cost over stated value of retired treasury stock of pooled businesses ...	1,419,000				
	2,419,000	755,000	696,000	1,401,000	51,000
Balance at end of year (Note 5)	<u>\$41,769,000</u>	<u>\$59,732,000</u>	<u>\$86,511,000</u>	<u>\$122,576,000</u>	<u>\$174,517,000</u>

Statement of additional paid-in capital

	Year ended December 31,				
	1969	1970	1971	1972	1973
Balance at beginning of year, as originally reported (after giving retroactive effect to a 2 for 1 stock split in 1969, a 3 for 2 stock split in 1971 and a 2 for 1 stock split in 1972)	\$ 6,378,000				
Restatement for businesses acquired through poolings of interests during 1970, 1971, 1972 and 1973 (Note 2)	4,940,000				
Balance at beginning of year, as restated	11,318,000	11,412,000	51,028,000	52,839,000	79,818,000
Add (deduct):					
Sale of common stock in public offering ..		10,348,000			
Conversion of debentures	46,000	19,434,000		24,143,000	
Acquisition of stock of Canadian licensees ..		9,710,000			
Exercise of stock options (Note 9)	48,000	124,000	1,867,000	2,498,000	1,882,000
Shares issued in connection with the prior acquisition of Hawaiian restaurants				(4,000)	(3,000)
Other changes			(56,000)	342,000	505,000
Balance at end of year	<u>\$11,412,000</u>	<u>\$51,028,000</u>	<u>\$52,839,000</u>	<u>\$79,818,000</u>	<u>\$82,202,000</u>

See accompanying notes.

McDonald's Corporation and Subsidiaries
Consolidated statement of changes in financial position

	Year ended December 31,		
	1971	1972	1973
Source of working capital:			
Operations—			
Net income	\$ 27,228,000	\$ 37,069,000	\$ 51,992,000
Charges against net income not involving working capital:			
Depreciation and amortization	10,535,000	12,700,000	17,988,000
Amortization of intangible assets and deferred charges	862,000	1,036,000	1,060,000
Deferred income taxes	2,614,000	2,519,000	4,878,000
Other—net	117,000	996,000	1,009,000
Total from operations	41,356,000	54,320,000	76,927,000
Issuance of securities—			
Common stock:			
Conversion of debentures		24,222,000	
Exercise of options	1,888,000	2,517,000	1,892,000
	1,888,000	26,739,000	1,892,000
Interim loans for construction, covered by mortgage commitments—net		22,319,000	
Long-term debt:			
4½ % convertible subordinated debentures	25,000,000		
Mortgage notes	11,915,000	19,360,000	63,638,000
Other notes payable	11,344,000	9,204,000	86,881,000
	48,259,000	28,564,000	150,519,000
Repayment of advances by 50% owned domestic affiliate			5,138,000
Property and equipment disposals (gains and losses included in operations)	5,528,000	4,681,000	7,642,000
Security deposits by lessees	3,699,000	4,031,000	5,018,000
Total source of working capital	100,730,000	140,654,000	247,136,000
Use of working capital:			
Additions to property, plant and equipment	57,635,000	116,035,000	178,779,000
Businesses purchased—			
Property, plant and equipment	1,018,000	570,000	1,340,000
Franchise and operating rights	3,954,000	1,304,000	3,331,000
	4,972,000	1,874,000	4,671,000
Notes receivable due after one year	1,198,000	5,609,000	8,341,000
Advances to 50% owned domestic affiliate	568,000	6,585,000	1,515,000
Reduction of interim loans for construction covered by mortgage commitments—net			18,689,000
Long-term debt reductions—			
Mortgage notes	5,517,000	4,249,000	6,600,000
Other notes payable	10,875,000	8,740,000	12,336,000
Conversion of debentures		25,000,000	
	16,392,000	37,989,000	18,936,000
Other changes in financial position—net	3,628,000	(592,000)	820,000
Total use of working capital	84,393,000	167,500,000	231,751,000
Increase (decrease) in working capital (Note 1d)	\$ 16,337,000	\$ (26,846,000)	\$ 15,385,000

See accompanying notes.

McDonald's Corporation (parent company)
Statement of changes in financial position

	Year ended December 31,		
	1971	1972	1973
Source of working capital:			
Operations—			
Net income	\$ 27,228,000	\$ 37,069,000	\$ 51,992,000
Charges against (credits to) net income not involving working capital:			
Depreciation and amortization	1,328,000	1,524,000	2,400,000
Amortization of intangible assets and deferred charges....	67,000	29,000	77,000
Deferred income taxes	538,000	435,000	1,002,000
Equity in net earnings of consolidated subsidiaries	(22,950,000)	(30,226,000)	(39,183,000)
Other—net		84,000	694,000
Total from operations	6,211,000	8,915,000	16,982,000
Issuance of securities—			
Common stock:			
Conversion of debentures		24,222,000	
Exercise of options	1,888,000	2,517,000	1,892,000
	1,888,000	26,739,000	1,892,000
Interim loans for construction, covered by mortgage commitments—net		19,730,000	
Long-term debt:			
4½ % convertible subordinated debentures	25,000,000		
Mortgage notes	5,622,000	6,058,000	16,855,000
Other notes payable	96,000	853,000	66,347,000
	30,718,000	6,911,000	83,202,000
Dividends received from subsidiaries			1,384,000
Investments in subsidiaries liquidated during the year	2,222,000	16,000	2,637,000
Property and equipment disposals (gains and losses included in operations)	505,000	3,000	1,256,000
Security deposits by lessees	1,391,000	1,409,000	1,545,000
Total source of working capital	42,935,000	63,723,000	108,898,000
Use of working capital:			
Additions to property, plant and equipment	10,415,000	19,857,000	30,406,000
Investments in and advances to consolidated subsidiaries.....	23,945,000	29,730,000	42,159,000
Notes receivable due after one year	202,000	341,000	3,486,000
Reduction of interim loans for construction covered by mortgage commitments—net			20,600,000
Long-term debt reductions—			
Mortgage notes	2,148,000	1,829,000	1,726,000
Other notes payable	1,432,000	271,000	580,000
Conversion of debentures		25,000,000	
	3,580,000	27,100,000	2,306,000
Other changes in financial position—net	(421,000)	(1,027,000)	822,000
Total use of working capital	37,721,000	76,001,000	99,779,000
Increase (decrease) in working capital (Note 1d)	\$ 5,214,000	\$ (12,278,000)	\$ 9,119,000

See accompanying notes.

Notes to financial statements

1. Summary of significant accounting policies

a. Consolidation policy and basis of presentation—

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Investments in 50%-owned companies, which are not material to the consolidated financial statements, are carried at equity in the companies' net assets.

All significant intercompany transactions are eliminated in consolidation.

Subsidiaries and 50%-owned companies operating outside the United States, other than in Canada and Japan, were in the development stage at December 31, 1973. All net costs relating to their activities, which are immaterial to the consolidated financial statements, were deferred at that date and will be amortized by charges against income of future periods, commencing when the respective companies are determined to be operational. The company in Japan was determined to be operational January 1, 1973. There were no significant deferred costs at that date related to its development period.

The accounts of Canadian and other subsidiaries and 50%-owned companies operating outside of the United States are translated into U. S. dollars based generally on (1) current exchange rates for monetary assets and liabilities, (2) historical exchange rates for nonmonetary assets and liabilities and capital

accounts, and (3) average exchange rates for revenues, costs and expenses (other than depreciation) and income taxes.

Certain reclassifications have been made in the consolidated financial statements for years prior to 1973 to conform to the presentation for 1973.

b. Property, plant and equipment—

Depreciation is provided principally on the straight line method over the following estimated useful lives: restaurant buildings—20 or 25 years; office buildings—principally 40 years; restaurant equipment and signs—10 years; furniture, fixtures and other equipment—3 to 10 years; and leasehold improvements—lesser of life of assets or terms of lease (including option periods). Additions to property, plant and equipment for new restaurants include interest, rent charges, real estate taxes and sales taxes incurred during construction. Amounts so capitalized approximated \$491,000—Parent Company and \$2,071,000—Consolidated for 1971, \$440,000—Parent Company and \$2,158,000—Consolidated for 1972 and \$1,100,000—Parent Company and \$5,480,000—Consolidated for 1973.

Expenditures for maintenance and repairs are charged to expense as incurred. Expenditures for betterments and renewals are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

c. Franchise and operating rights (Note 4)—

Proceeds from sales of certain exclusive foreign territorial licenses are credited against the cost of the underlying rights to the McDonald's System acquired by the Company in 1961. The balance of such cost is not being amortized, as the Company feels there is no decrease in value.

The costs allocated to reacquired unlimited term franchise rights acquired after October 1970 are being amortized on the straight line method over 40 years. The costs allocated to such rights acquired prior to November 1970 are not being amortized as, in the opinion of management, there is no decrease in value.

The costs allocated to limited term franchise rights reacquired from licensees are being amortized on the straight line method over their remaining lives.

d. Financing agreements and long-term debt—

The Company has permanent mortgage loan commitments for restaurants which are completed or under construction. Interim loans for construction which will be refinanced through mortgage loan proceeds, under existing commitments, are classified as non-current liabilities.

In 1972 and prior years, the Company entered into sale and leaseback arrangements to finance costs of restaurant property and buildings. The leases generally provide for initial terms of 20 or 25 years and renewal options which could extend the lease periods to 40

years. Under these sale and leaseback agreements, the Company has options to purchase the properties at fair market value or at other prices (not lower than depreciated book values at the option dates) determined by formulas. The decrease in net working capital for 1972 results from a change in emphasis during that year from sale and leaseback to mortgage financing for restaurant properties (see Note 5).

Issuance expense on long-term debt is deferred and amortized over the repayment term.

e. Revenue recognition—

Initial location and license fees are recorded as income when the related restaurant is opened. Expenses associated with the issuance of license agreements and

site selection and assignment are charged to expense as incurred.

Gains on the sale of Company-owned restaurant businesses are recorded in income when the sales are consummated and cash down payments are received. Terms of notes receivable arising from such sales generally extend from 5 to 10 years and bear interest at rates ranging from 6½ % to 11%.

Service fees from license agreements are taken into income on the accrual basis as the fees are earned and become due from the licensee.

Rentals are recorded in income as earned over the terms of the related leases.

f. Income taxes—

Income taxes are not accrued on undistributed earnings of subsidiaries

operating outside the United States as the Company considers such earnings to be permanently invested in the businesses.

The investment tax credit is accounted for on the flow-through method as a reduction of income tax provisions.

g. General, administrative and selling expenses—

The Parent Company charges a portion of its general, administrative and selling expenses to certain of its subsidiary companies based on the number of restaurants for which they have responsibility or a fixed monthly charge. Amounts so charged by the Parent Company to subsidiaries were \$6,237,000 in 1971, \$8,193,000 in 1972 and \$10,780,000 in 1973.

2. Restaurant acquisitions and numbers of restaurants in operation

The Company acquired 24 restaurants in 1971, 33 restaurants in 1972 and 90 restaurants in 1973, including related territorial rights, from licensees in transactions accounted for as poolings of interests. A 1973 pooling transaction resulted in the Company acquiring its then outstanding Series A preferred stock (issued in a prior pooling transaction). A total of 345,746 shares of common stock (valued at \$9,955,000) were issued in the 1971 acquisitions, 268,887 shares

of common stock (valued at \$11,134,000) were issued in the 1972 acquisitions and 762,137 shares of common stock (valued at \$50,360,000) were issued in the 1973 acquisitions. The accompanying consolidated financial statements include the accounts of the pooled businesses (see Note (b) of Notes to Consolidated Statement of Income).

In June and July 1970, the Company purchased 45% and 80% of the outstanding stock of its licensees in western and eastern Canada, respectively, for an aggregate 808,108 shares of its common stock (valued at \$9,800,000),

increasing its ownership of these licensees to 78% and 100%, respectively. At the dates of these transactions, the Canadian licensees owned 33 restaurants in operation, two under construction and extensive territorial rights to use of the McDonald's System. In February, 1971, the Company purchased the remaining 22% interest in its licensee in western Canada for \$1,891,000. In addition, during the five years ended December 31, 1973, the Company purchased restaurant businesses from licensees and sold restaurant businesses to licensees as follows:

	Purchased		Sold
	Number of restaurant businesses	Approximate purchase price	Number of restaurant businesses*
Year ended December 31:			
1969	16	\$4,000,000	23
1970	2	400,000	18
1971	9	2,700,000	31
1972	10	1,900,000	31
1973	21	4,700,000	36

* Includes numbers of restaurant businesses leased to the purchasers prior to sale as follows: 1970—4, 1971—4, 1972—12 and 1973—9.

Results of operations of purchased restaurants have been included in the financial statements since dates of acquisition or, in the case of the Canadian licensees previously mentioned, the dates control was obtained.

The number of restaurant businesses in operation at December 31, 1971, 1972 and 1973 was as follows:

	December 31,		
	1971	1972	1973
Operated by the Company	581	716	815
Licensed to other operators	1,286	1,506	1,804
Leased to others	30	28	53
Operated by 50%-owned affiliates	7	22	45
	<u>1,904</u>	<u>2,272</u>	<u>2,717</u>

Operators of 48 of the restaurant businesses leased to others at December 31, 1973 have options to purchase the businesses at prices determined by formulas.

Subsequent to December 31, 1973 the Company acquired 16 restaurant businesses, including related

territorial rights, from licensees in transactions accounted for as poolings of interests. Approximately 94,900 shares of common stock will be issued in connection with these acquisitions. The combined accounts of the acquired businesses are not material to the accompanying financial statements.

3. Inventories

Inventories, which consist of food items and supplies for Company-owned restaurants, are

stated at cost (first-in, first-out), which is not in excess of market. Ending inventories used in the computation of consolidated cost of sales (food and paper) for the three

years ended December 31, 1973 were as follows: 1970—\$2,720,000; 1971—\$3,279,000; 1972—\$4,195,000 and 1973—\$6,346,000.

4. Intangible assets

In 1961, the Company acquired the underlying rights (previously covered by a 99-year franchise agreement) to the McDonald's System, trademarks and trade names

for \$2,700,000 plus acquisition costs. Fees and proceeds from the sales of certain exclusive foreign territorial licenses have been credited against the cost of these rights, as follows:

	Parent Company	Consolidated
Cumulative amounts through 1970	\$ 793,000	\$636,000
1971	336,000	38,000
1972	527,000	99,000
1973	855,000	74,000
	<u>\$2,511,000</u>	<u>\$847,000</u>

In 1971 and prior years, the Company acquired the stock of certain Canadian companies which operated and franchised McDonald's restaurants in Canada, under the provisions of unlimited term territorial licenses previously granted (see Note 2). The aggregate excess of cost over the net tangible assets acquired, which was allocated to unlimited term franchise and operating rights, was \$14,597,000, including \$2,022,000

incurred in 1971. The unamortized 1971 costs amounted to \$1,872,000 at December 31, 1973. Tax benefits resulting from the utilization of preacquisition loss carry-forwards have been credited against the pre-1971 costs and amounted to \$464,000 in 1972 and \$351,000 in 1973. As indicated in Note 1c, no amortization is being provided on the balance of these pre-1971 costs of \$11,760,000 at December 31, 1973.

The Company and its subsidiaries have also purchased businesses operating McDonald's restaurants under limited term license agreements. The excess of cost over the net tangible assets of the businesses purchased has been allocated to limited term franchise rights reacquired. The unamortized amounts totaled \$148,000—Parent Company and \$10,849,000—Consolidated at December 31, 1973.

5. Financing and dividend restrictions

Mortgage notes (which mature over various terms to 20 years) relate to land and buildings purchased and/or constructed by the Company and its subsidiaries. These obligations are generally payable in monthly instalments, with interest rates ranging from 5½ % to 10½ % per annum. Land, buildings and

improvements with aggregate costs of approximately \$51,000,000—Parent Company and \$188,000,000—Consolidated at December 31, 1973 were pledged as security for these obligations. The Parent Company generally has guaranteed payment on mortgage notes of its subsidiaries.

Other long-term notes payable consisted of the following at December 31, 1973:

	Parent Company	Consolidated
Revolving credit notes	\$50,000,000	\$ 50,000,000
Bank credit agreement notes—		
Domestic and Canadian	20,000,000	23,938,000
Other		6,333,000
8.375% promissory notes	11,850,000	11,850,000
Equipment purchase notes		11,285,000
Miscellaneous	1,901,000	3,410,000
	<u>\$83,751,000</u>	<u>\$106,816,000</u>

During 1973, the Company renegotiated its domestic revolving credit agreement with a group of banks, increasing the available credit from \$17,000,000 to \$50,000,000. In accordance with provisions of the agreement, the due dates were extended in October 1974 to August 31, 1977. The due dates may be further extended, from time to time, by mutual consent of the parties to the agreement. The loans bear interest (10.4% at December 31, 1973) at the rate of ½ % above the Agent bank's prime rate. Among other things, the

agreement provides for a commitment commission of ½ of 1% per annum on the daily unused portion of the total commitment through the termination date of the agreement.

The Company also entered into a credit agreement with a group of domestic banks, some of which are parties to the revolving credit agreement discussed above, providing for an aggregate of \$30,000,000 of loans through December 17, 1974, of which \$20,000,000 were outstanding at December 31, 1973. The loans are

repayable in four equal annual instalments commencing December 17, 1977 and bear interest (10.4% at December 31, 1973) at the rate of ½ % above the Agent bank's prime rate to December 17, 1976 and ¾ % above such prime rate thereafter. The agreement provides for a commitment fee of ½ of 1% per annum on the daily unused portion of the total commitment to December 17, 1974. (See Note 5 of Notes to Capitalization on page 6 of this Prospectus regarding an additional line of credit obtained July 15, 1974.)

The total loan commitments under the agreements described in the preceding two paragraphs may be reduced by the Company at any time during the commitment period or may be limited by a borrowing base computation as defined in each agreement. Loans under both agreements may be prepaid by the Company at any time without premium or penalty. Each agreement requires, among other things, that the Company maintain minimum levels of consolidated working capital (as defined) and restricts the payment of cash dividends and the repurchase of capital stock of the Company during any fiscal year to 50% of the consolidated net income of the preceding fiscal year. Consolidated retained earnings not restricted for 1974 under provisions of these agreements, amount to \$25,996,000.

Certain Canadian subsidiaries had outstanding bank loans of \$3,938,000 at December 31, 1973 under

provisions of a \$6,000,000 credit agreement. The loans bear interest (10.5% at December 31, 1973) at the rate of 1½ % above the bank's prime lending rate and are repayable in 60 monthly instalments. They may be prepaid at any time without premium.

A foreign subsidiary has \$6,333,000 of long-term (eight years) bank loans. Interest rates range from 9½ % to 9¾ %. Principal payments commence in January 1975. The loans are collateralized by letters of credit from a U. S. bank which receives a commission of ½ of 1% of the principal amount of the loans.

The 8.375% promissory notes are due November 1, 1979. The Company may prepay, without premium or penalty, up to 25% on November 1, 1976, up to 25% on November 1, 1977 and up to 50% on November 1, 1978. In February 1974, the Company obtained commitments for an additional \$11,350,000 of promissory notes

(8½ % interest rate) repayable 1977 to 1980 in specified annual instalments.

Notes payable for equipment purchases relate principally to equipment and signs at Company-owned restaurants. These notes are generally due in monthly instalments and have maturities ranging up to five years, with interest at 5½ % to 10½ % per annum. Equipment and signs for restaurants with aggregate costs approximating \$36,600,000 (Consolidated) at December 31, 1973 were pledged as security for the equipment purchase notes. In connection with certain miscellaneous notes payable the Parent Company has pledged certain other equipment with aggregate costs of approximately \$870,000.

Aggregate maturities of mortgage and other notes payable for the five years ending after December 31, 1973 (which includes maturity of the \$50,000,000 revolving credit note in 1977) are, approximately, as follows:

	Parent Company	Consolidated
1974	\$ 1,715,000	\$14,514,000
1975	1,700,000	14,500,000
1976	3,000,000	13,900,000
1977	56,600,000	64,900,000
1978	6,800,000	13,300,000

The Company has received interim loans for construction (from banks) in connection with restaurants completed or under construction which will be refinanced by long-term mortgage notes under commitment agreements with various lending institutions (see Note 1d). Total mortgage commitments approximated \$44,500,000 at December 31, 1973. These generally provide for mortgage note repayment terms of up to 20 years and interest rates ranging from 8% to 8¼ %. Amounts expended by the Company which are expected to be recovered through mortgage

proceeds or through remaining commitments under the long-term credit arrangements mentioned above totaled approximately \$40,000,000 at December 31, 1973.

The Company has informally agreed to maintain average compensating balances, not restricted as to withdrawal, in connection with long-term debt lines of credit. At December 31, 1973, the compensating balance arrangements ranged from 10% to 15% (later increased to range from 15% to 20%) of the total lines of credit and in the case of one bank, an additional 10% of loans outstanding under the line. The

average balances to be maintained by the Company and its subsidiaries as of December 31, 1973 approximated \$9,200,000 after adjustment for estimated average float and uncollected funds of \$3,850,000. In addition, the Company had available at December 31, 1973 bank lines of credit aggregating \$29,000,000 for short-term borrowings. No loans were outstanding at that date under these lines. In connection therewith, and with short-term borrowings of a 50%-owned domestic affiliate, the Company and its subsidiaries were to maintain average compensating balances, under informal

agreements, which approximated \$2,800,000 after adjustment for estimated float and uncollected funds of \$1,725,000.

Short-term bank loans and interim

loans for construction (from banks), aggregating \$5,689,000 at December 31, 1973, averaged \$31,102,000 outstanding, based on month-end balances, during 1973 with a

maximum month-end balance during the year of \$45,130,000. The weighted average interest rate on this debt for 1973 was 8.14%.

6. Leases

For purposes of the information presented in the various sections of this note, all leases for restaurant properties on which the Company and its subsidiaries are lessees and the applicable subleases are deemed to be financing leases.

a. Rental expense—

At December 31, 1973, the Company and certain of its subsidiaries were lessees under ground leases (the Company leases the land and erects and owns the building) or improved leases (lessor owns the land and building) covering approximately 1,550 McDonald's restaurant locations. Lease terms are generally for twenty years and, in many cases,

provide for one or more five-year renewal options. The lessee is generally obligated for the cost of property taxes, insurance and maintenance. Total rental expense related to such leases is shown in the accompanying statements of income. These amounts include \$518,000 for 1971 (\$93,000—Parent Company), \$688,000 for 1972 (\$109,000—Parent Company) and \$884,000 for 1973 (\$105,000—Parent Company) representing percentage rentals based on sales of the related restaurants in excess of minimum rentals stipulated in the lease agreements.

The Company and its subsidiaries also have other lease agreements, principally for office space and

equipment. Total rental expense related to such leases, which is included with general, administrative and selling expenses in the accompanying statements of income, amounted to \$1,020,000 (\$496,000—Parent Company) for 1971, \$2,014,000 (\$1,149,000—Parent Company) for 1972 and \$2,835,000 (\$1,438,000—Parent Company) for 1973.

Minimum future rental expense under commitments for noncancelable leases in effect at December 31, 1973 is approximately as follows:

	Restaurant properties		
	Ground leases	Improved leases	Other leases
Parent Company—			
1974	\$ 1,212,000	\$ 5,666,000	\$ 567,000
1975	1,222,000	5,660,000	421,000
1976	1,224,000	5,604,000	306,000
1977	1,215,000	5,590,000	240,000
1978	1,225,000	5,572,000	153,000
1979-1983	5,927,000	26,133,000	233,000
1984-1988	4,581,000	21,802,000	
1989-1993	2,876,000	10,971,000	
	<u>\$19,482,000</u>	<u>\$ 86,998,000</u>	<u>\$1,920,000</u>
Consolidated—			
1974	\$ 4,583,000	\$ 23,486,000	\$1,587,000
1975	4,633,000	23,485,000	1,349,000
1976	4,658,000	23,347,000	1,015,000
1977	4,607,000	23,338,000	471,000
1978	4,540,000	23,326,000	209,000
1979-1983	22,316,000	110,842,000	263,000
1984-1988	18,738,000	96,437,000	17,000
1989-1993	10,623,000	50,307,000	
Thereafter	10,000	1,668,000	
	<u>\$74,708,000</u>	<u>\$376,236,000</u>	<u>\$4,911,000</u>

The present value of the minimum rental commitments at December 31, 1973, related to restaurant properties, based upon approximate interest rates (ranging from 4.9% to

8.95% with a weighted average rate of approximately 7.9%) determined to be applicable at the time of entering into the leases is as follows:

	Parent Company	Consolidated
Ground leases	\$10,561,000	\$ 40,272,000
Improved leases	\$52,266,000	\$217,465,000

b. Rental income—

Certain of the leased properties discussed above are subleased to licensees and certain properties owned by the Company and its subsidiaries are leased to licensees. The subleases or leases with licensees relate to both land and buildings and are generally for

twenty years and require the licensee to pay property taxes, insurance and maintenance. The subleases or leases provide for a minimum rental and percentage rental based on sales in excess of a base amount. Total rental income related to the subleases and leases is summarized as follows:

Rental income			
	Minimum	Percentage	Total
Parent Company:			
1971	\$10,721,000	\$ 5,777,000	\$16,498,000
1972	13,938,000	7,745,000	21,683,000
1973	17,771,000	13,727,000	31,498,000
Consolidated:			
1971	23,845,000	15,796,000	39,641,000
1972	32,849,000	20,299,000	53,148,000
1973	44,382,000	35,682,000	80,064,000

Of the total consolidated rental income for 1973, approximately 15% pertained to ground lease sites, 47% to improved lease sites and 38% to owned sites.

December 31, 1973, summarized by the Company's and its subsidiaries' real estate interests at the applicable restaurant sites, is approximately as follows:

Minimum future rental income for subleases and leases in effect at

	Ground lease sites	Improved lease sites	Owned sites
Parent Company:			
1974	\$ 3,473,000	\$ 7,616,000	\$ 8,925,000
1975	3,481,000	7,587,000	8,926,000
1976	3,483,000	7,536,000	8,968,000
1977	3,446,000	7,523,000	8,968,000
1978	3,457,000	7,493,000	8,936,000
1979-1983	16,563,000	35,123,000	43,916,000
1984-1988	13,887,000	29,421,000	40,272,000
1989-1993	8,025,000	13,541,000	23,522,000
	<u>\$ 55,815,000</u>	<u>\$115,840,000</u>	<u>\$152,433,000</u>

	Ground lease sites	Improved lease sites	Owned sites
Consolidated:			
1974	\$ 8,567,000	\$ 20,496,000	\$ 22,919,000
1975	8,585,000	20,465,000	22,912,000
1976	8,548,000	20,393,000	22,851,000
1977	8,487,000	20,394,000	22,790,000
1978	8,480,000	20,390,000	22,763,000
1979-1983	41,745,000	96,273,000	111,443,000
1984-1988	37,474,000	81,823,000	101,692,000
1989-1993	21,393,000	38,708,000	61,506,000
Thereafter		375,000	
	<u>\$143,279,000</u>	<u>\$319,317,000</u>	<u>\$388,876,000</u>

The present value of the minimum future rental income from restaurant subleases and leases in effect at December 31, 1973, based upon approximate interest rates

determined to be applicable at the time of entering into the sublease or lease, is approximately as follows:

	Parent Company	Consolidated
Ground lease sites	\$31,303,000	\$ 79,108,000
Improved lease sites	65,976,000	179,262,000
Owned sites	81,059,000	209,636,000

c. Pro forma effect on net income—

If all leases for restaurant properties on which the Company and its subsidiaries are lessees and the applicable subleases were capitalized, the pro forma effect on

Parent Company and Consolidated net income for 1973 would be immaterial. For purposes of this computation, minimum sublease rental income applicable to ground lease sites has been determined to be a fixed ratio to minimum ground lease rental expense. The difference

between actual minimum rental income for the properties and the amount deemed applicable to the ground lease has been allocated to the building, which is owned by the Company and is excluded from the computations.

7. Other commitments and lease security deposits

The Company has guaranteed the payment of loans related to certain 50%-owned companies. Amounts outstanding at December 31, 1973 on which the Company is guarantor approximated \$10,827,000. Short-term bank notes, interim loans for construction and certain other long-term debt of wholly-owned subsidiaries in the aggregate principal amount of \$17,265,000 at December 31, 1973 were guaranteed by the Parent Company in addition

to the mortgage notes discussed in Note 5.

Costs to complete restaurant construction under contracts existing at December 31, 1973 approximated \$5,000,000—Parent Company and \$20,000,000—Consolidated.

Lease security deposits received from restaurant operators (sublessees or lessees) are generally refundable 50% at the end of the fifteenth year and the balance at the termination of the lease. As of December 31, 1973, security deposit refunds which will become due for all years through 1978 approximate \$900,000—Parent Company (including

\$83,000 to subsidiaries) and \$2,500,000—Consolidated. Refunds due for the individual years 1979 through 1993 range from approximately \$250,000 to \$1,000,000—Parent Company (including \$60,000 to \$427,000, respectively, due to subsidiaries) and from \$800,000 to \$3,100,000—Consolidated. Security deposits by lessees shown in the Parent Company balance sheet include \$2,405,000 at December 31, 1973 received from subsidiaries, which amounts have been eliminated in consolidation.

8. Capital stock and additional paid-in capital

Details of the Series preferred stock at December 31, 1973, are as follows:

	Authorized shares	Issued and Outstanding	
		Shares	Amount
6% cumulative convertible:			
Series A	2,500		
Series B	373	373	\$373,000
Series C	158		
Series D	472	472	472,000
		<u>845</u>	<u>\$845,000</u>

In February 1973, the Series C preferred stock was repurchased for \$1,000 per share plus accrued dividends. In a 1973 pooling transaction, 2,300 shares of the then outstanding Series A preferred stock were reacquired.

Each of the outstanding Series B and D preferred stock has one vote per share and a liquidation preference and redemption price of \$1,000 per share plus accrued dividends and is redeemable July 1, 1974 through December 31, 1974 and after June 30, 1975. From January 1, 1974 through June 30, 1974, each share of Series B and D preferred stock is convertible into that number of shares of common stock equal to the quotient derived by dividing \$900 by the greater of \$4.17 or the then current market price (as defined) of the Company's common stock. From July 1, 1974 the stocks are nonconvertible for a period of six months. Thereafter, each share is convertible into that number of shares of common stock equal to the quotient derived by dividing \$1,150 by the greater of \$1.67 or the then current market price (as defined) of the Company's common stock.

In February 1974, 45 shares of Series D preferred stock were repurchased for \$1,000 per share plus accrued dividends, and in April

1974, all of the Series B preferred stock was converted into 6,146 shares of common stock.

Common stock splits of 3 for 2 and 2 for 1 (effected in the form of 50% and 100% stock dividends) were distributed in June 1971 and June 1972 respectively. In connection therewith, transfers were made from additional paid-in capital to the common stock account of amounts equivalent to 50% and 100%, respectively, of the balances in the common stock account prior to the splits.

The following information relating to issuances of common stock has been adjusted to give retroactive effect to the common stock splits discussed above.

In January 1970, the Company called for redemption the remaining 4¼% convertible subordinated debentures then outstanding. Debentures in the principal amount of \$19,937,000 were subsequently converted into 1,868,284 shares of common stock of the Company plus cash in lieu of fractional shares.

In December 1970, the Company issued 750,000 shares of common stock which were sold in a public offering.

The 4½% convertible subordinated debentures outstanding in the principal amount of \$25,000,000 were called for

redemption in March 1972 and were subsequently converted into 708,524 shares of common stock of the Company plus cash in lieu of fractional shares.

In May 1972, the authorized number of common shares was increased from 25,000,000 to 100,000,000.

A summary of changes in common stock during the five years ended December 31, 1973 is as follows:

	Common stock	
	Shares	Amount
Balance at January 1, 1969, as previously reported (after giving retroactive effect to a 2 for 1 stock split in 1969, a 3 for 2 stock split in 1971 and a 2 for 1 stock split in 1972)	32,264,762	\$3,588,000
Acquisitions of businesses in poolings of interests during—		
1970	1,209,368	135,000
1971	345,746	39,000
1972	268,887	30,000
1973	759,024	85,000
Balance at January 1, 1969 as adjusted to reflect poolings through 1973	34,847,787	3,877,000
Conversion of 4¼ % debentures	4,404	
Exercise of stock options	5,310	1,000
Balance at December 31, 1969	34,857,501	3,878,000
Conversion of 4¼ % debentures	1,868,284	208,000
Sale of common stock	750,000	83,000
Acquisition of stock of Canadian licensees (Note 2)	808,108	90,000
Exercise of stock options	13,238	2,000
Balance at December 31, 1970	38,297,131	4,261,000
Exercise of stock options	195,734	20,000
Balance at December 31, 1971	38,492,865	4,281,000
Conversion of 4½ % debentures	708,524	79,000
Exercise of stock options	171,716	19,000
Shares issued in connection with the prior acquisition of Hawaiian restaurants	37,392	4,000
Balance at December 31, 1972	39,410,497	4,383,000
Exercise of stock options	92,881	10,000
Shares issued in connection with the prior acquisition of Hawaiian restaurants	25,226	3,000
Balance at December 31, 1973	39,528,604	\$4,396,000

At December 31, 1973, a maximum of 2,253,321 shares of common stock were reserved for (1) conversion of preferred stock (581,886 shares), (2) issuance under the stock option plans (791,519

shares) and (3) contingent issuance to the former owners of restaurants in Hawaii acquired in a pooling of interests in 1970, based on sales of such restaurants to December 31, 1973 (879,916 shares). Management

estimates that less than 20,000 shares will be issued in 1974 based upon 1973 sales and does not expect to issue any additional shares in connection with the acquisition of these restaurants.

9. Stock options

Under a stock option plan adopted in 1973, options to purchase a total of 386,514 shares of the Company's

common stock may be granted to certain employees at prices not less than the fair market value of the stock at dates of grant. The plan terminates on May 14, 1978, but may

be terminated sooner by the Board of Directors without affecting options then outstanding. Options were also granted, under a plan adopted in 1968, to certain officers

and key employees at prices equal to fair market value at dates of grant. This plan terminated on April 30, 1973 and no further grants can be made.

Options granted under the 1968 plan and certain options under the

1973 plan meet the requirements of Section 422 of the Internal Revenue Code and are treated as "qualified stock options". Such options become exercisable in five equal annual instalments commencing on the date of grant and expire five

years from that date. At December 31, 1973 qualified options for 165,938 shares were exercisable.

The following table sets forth certain additional information as to qualified options issued under the plans.

	Option price			Market value	
	Shares	Per share	Total	Per share	Total
				At dates granted	
Options outstanding at December 31, 1973 (granted 1968 through 1973)	492,205	\$11 to \$72	\$25,269,000	\$11 to \$72	\$25,269,000
				At dates first exercisable	
Options becoming exercisable:					
1971	122,848	\$ 9 to \$35	\$ 2,091,000	\$22 to \$36	\$ 3,645,000
1972	165,231	9 to 71	4,253,000	47 to 71	9,693,000
1973	135,271	11 to 72	5,874,000	55 to 72	8,370,000
				At dates exercised	
Options exercised:					
1971	195,734	\$ 9 to \$13	\$ 1,888,000	\$16 to \$37	\$ 5,764,000
1972	171,716	9 to 64	2,517,000	37 to 75	8,549,000
1973	92,881	9 to 64	1,882,000	49 to 75	5,938,000

Under the 1973 plan, options may also be granted which do not meet the requirements of Section 422 of the Internal Revenue Code. Such non-qualified options become exercisable in five equal biennial instalments commencing one year from date of grant and expire ten years from that date. Non-qualified options were granted during 1973 for 124,300 shares at prices of \$60 and \$72 per share, of which options for 2,700 shares were subsequently cancelled. None of the remaining

options for 121,600 shares, having a market value at date of grant aggregating \$7,317,000 (\$60 to \$72 per share), were exercisable at year end.

At December 31, 1973, 177,714 shares were reserved for future grants under the 1973 plan. In May, 1974, stockholders approved the reservation of an additional 197,643 shares for issuance of options under the 1973 plan.

For options exercised, stock was issued from the authorized but

unissued shares of the Company. The excess of the amount paid per share over the average amount per share in the common stock account has been credited to additional paid-in capital. No amounts have been reflected in the statement of income in accounting for the options. Any income tax benefits realized by the Company arising from employee resale before the end of the statutory holding period as to qualified options are credited to additional paid-in capital.

10. Profit sharing plan

The Company has a trustee savings and profit sharing plan covering full time domestic salaried employees after two years of service. Company

contributions (\$207,000—Parent Company and \$886,000—Consolidated for 1971, \$243,000—Parent Company and \$1,250,000—Consolidated for 1972 and \$559,000—Parent Company and \$1,900,000—

Consolidated for 1973) are determined by the Board of Directors and are limited to the maximum amount deductible for federal income tax purposes.

11. Supplementary income statement information

Item	Charged to costs and expenses		
	Year ended December 31,		
	1971	1972	1973
Parent Company:			
Depreciation and amortization of property, plant and equipment	\$ 1,328,000	\$ 1,524,000	\$ 2,400,000
Taxes, other than income taxes:			
Payroll taxes	\$ 133,000	\$ 225,000	\$ 323,000
Other	136,000	292,000	137,000
	\$ 269,000	\$ 517,000	\$ 460,000
Rents	\$ 4,778,000	\$ 6,783,000	\$ 8,022,000
Advertising and promotion	\$ 2,159,000	\$ 2,005,000	\$ 3,112,000
Consolidated:			
Maintenance and repairs	\$ 3,212,000	\$ 4,383,000	\$ 4,889,000
Depreciation and amortization of property, plant and equipment	\$10,535,000	\$12,700,000	\$17,988,000
Taxes, other than income taxes:			
Sales tax	\$ 6,942,000	\$10,761,000	\$15,975,000
Payroll taxes	4,252,000	5,985,000	9,078,000
Other	2,632,000	3,573,000	4,818,000
	\$13,826,000	\$20,319,000	\$29,871,000
Rents	\$17,046,000	\$24,793,000	\$31,129,000
Advertising and promotion	\$14,205,000	\$19,898,000	\$22,934,000

12. Changes in elements of working capital

	Year ended December 31,		
	1971	1972	1973
Parent Company:			
Increase (decrease) in current assets—			
Cash	\$ 4,470,000	\$ 4,439,000	\$ 6,485,000
Certificates of deposit	(1,500,000)	(2,485,000)	20,000
Short-term investments	2,096,000	316,000	(4,015,000)
Notes receivable	561,000	(109,000)	112,000
Accounts receivable	953,000	(655,000)	940,000
Due from subsidiaries	(1,517,000)	2,814,000	264,000
Prepaid expenses and other current assets	1,260,000	(8,887,000)	249,000
	6,323,000	(4,567,000)	4,055,000
Increase (decrease) in current liabilities—			
Notes payable	(4,334,000)	4,170,000	(4,925,000)
Accounts payable	2,187,000	2,633,000	(3,670,000)
Income taxes	1,405,000	2,454,000	2,402,000
Other accrued liabilities	1,851,000	925,000	806,000
Current maturities of long-term debt		(2,471,000)	323,000
	1,109,000	7,711,000	(5,064,000)
Increase (decrease) in working capital	<u>\$ 5,214,000</u>	<u>\$ (12,278,000)</u>	<u>\$ 9,119,000</u>
Consolidated:			
Increase (decrease) in current assets—			
Cash		\$ 16,161,000	\$ 19,720,000
Certificates of deposit		(3,646,000)	3,000,000
Short-term investments		5,725,000	(5,870,000)
Notes receivable		429,000	79,000
Accounts receivable		(938,000)	4,608,000
Inventories		916,000	2,151,000
Prepaid expenses and other current assets		(28,416,000)	2,248,000
		(9,769,000)	25,936,000
Increase (decrease) in current liabilities—			
Notes payable		1,804,000	(8,628,000)
Accounts payable		11,313,000	6,967,000
Income taxes		3,483,000	5,042,000
Other accrued liabilities		1,166,000	4,593,000
Current maturities of long-term debt		(689,000)	2,577,000
		17,077,000	10,551,000
Increase (decrease) in working capital		<u>\$ (26,846,000)</u>	<u>\$ 15,385,000</u>

Changes in elements of working capital are not presented for 1971 as it is impractical to obtain the information for that year due to the poolings of interests referred to in Note 2.

